


MEMORANDUM

April 2, 2013

TO: Audit Committee

FROM:  Leslie Rubin, Legislative Analyst
Office of Legislative Oversight

SUBJECT: Committee Review of Findings from FY12 External Audit

On April 4th, the Audit Committee will receive a briefing from BDO USA, LLP, the County Government's independent auditor, and Executive Branch staff on the results of the audits of the County Government's FY12 financial statements, the financial statements of the County Government's retirement plans, and other audit work.

Following last year's challenges related to the production of the County's FY11 Comprehensive Annual Financial Report (CAFR), the County Government's Department of Finance issued the FY12 CAFR, including BDO USA's *Independent Auditor's Report*, on schedule this year, on December 21, 2012.

BDO USA found that the County Government's financial statements presented fairly, in all material respects, the financial position of the County Government. BDO USA identified five significant deficiencies and four material weaknesses in the County Government's financial controls, and identified five matters in an *Internal Control Deficiencies* report that merit attention from Management.

Last year, eight of the significant deficiencies and material weaknesses identified by CliftonLarsonAllen were related to the County Government's implementation of its Enterprise Resource Planning system (ERP). This year, six of the significant deficiencies and material weaknesses identified by BDO USA were related to the ERP implementation.

The discussion items for today's meeting are listed below.

	Discussion Items	See Packet Page...
A	FY 2012 Audit of the County Government Financial Statements	3
B	FY 2012 Audit of the Montgomery County Employees Retirement Plans	5
C	<i>Report on Expenditure of Federal Awards</i> (Single Audit)	6
D	Other Audit Work	7

The table below identifies staff from the independent auditor and the County Government representatives scheduled to attend the briefing.

Organization	Independent Auditor's Staff
BDO USA, LLP	William Eisig, Partner Neena Masih, Partner Bis Dhar, Senior Manager
Department/ Office	Executive Branch Staff
Department of Finance	Joseph Beach, Director Karen Hawkins, Chief Operating Officer Lenny Moore, Controller David Crow, General Accounting Manager Mauricio Delgado, Grants Manager
Montgomery County Employee Retirement Plans	Linda Herman, Executive Director
Department of General Services	Grace Denno, Div. Chief, Office of Business Relations and Compliance
Department of Housing and Community Affairs	Tim Goetzinger, Budget and Finance Manager
Department of Health and Human Services	Uma Ahlawalia, Director
Department of Liquor Control	George Griffin, Director Lynn Duncan, Administrative Services Coordinator
Department of Technology Services	Dieter Klinger, Chief Operating Officer Karen Plucinski, Acting ERP Program Director Keith Young, Security Officer
Office of Human Resource	Kaye Beckley, Business Operations and Performance Div. Manager

Definition of Terms. The summaries of BDO USA's findings include terminology that auditors use to report their findings.¹ These terms, which have specific meanings, are explained below. A control deficiency represents the lowest degree of risk to the County, and a material weakness the greatest.

- **Control Deficiency** – When the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
- **Significant Deficiency** – A deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- **Material Weakness** – A deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

¹ To report their findings, auditors use a classification structure found in Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*.

A. FY 2012 Audit of the County Government Financial Statements

BDO USA audited the County Government's financial statements and issued three reports summarizing its findings. The findings are described below.

Independent Auditor's Report. BDO USA audited the basic financial statements of Montgomery County for the year ended June 30, 2012. In its *Internal Auditor's Report*, bound in the County Government's FY2012 Comprehensive Annual Financial Report, BDO USA found that the County Government's financial statements present fairly, in all material respects, the financial position of the County Government. See ©1.

Report on Internal Control. In the summary of its assessment of the County Government's internal control over financial reporting – BDO USA's *Independent Auditor's Report on Internal Control Over Financial Reporting* – BDO USA identified four material weaknesses and five significant deficiencies. The Report includes the Executive Branch's response to each of BDO USA's findings and is attached at ©3. The findings are summarized briefly below in Subsection 1.

Internal Control Deficiencies Report. BDO USA identified five matters for Management's attention in an *Internal Control Deficiencies* report, attached at ©15. BDO USA's findings from this report are summarized in the table below. The County Executive's full responses to these findings are attached at ©22.

Summary of Matters for Management's Attention Identified in *Internal Control Deficiencies* Report

Category	Summary of Finding	Summary of Executive's Response
P-Card Purchases	The auditor found that P-Card purchases were not approved in accordance with established guidelines in 2 of 30 items tested.	The County Government recently hired an additional person to assist with P-Card administration and has reminded relevant departments of existing policies regarding documentation of approvals.
P-Card Accruals	The auditor found that accruals for P-Card transactions are not established for individual transactions under \$1,000 and Management does not analyze the total impact of these unrecorded accruals.	The County Government will reevaluate the materiality of potentially unrecorded accruals for P-Card transactions below \$1,000.
Analysis and Updating of Reserves	The auditor noted issues with property tax receivables, liquor receivables, and mortgage receivables.	The County Government agrees with the issues noted by the auditor and will reevaluate its processes and practices accordingly.
Accuracy of Retirement Participant Demographic Data	The auditor recommended improving controls to ensure the accuracy of hiring/eligibility dates reported to the vendor and improving and strengthening existing controls to ensure that all employee data is reconciled to its third-party provider(s) on a timely basis.	The Department of Finance has established a task force to review and improve the processes for maintaining demographic data and is working to ensure that employee data is reconciled to the general ledger and third party vendors on a timely basis.
Inventory Valuation	The auditor noted that the County Government does not use its stated valuation methodology of first-in, first-out (FIFO). Rather, it uses the market valuation method. While the auditors did not find the valuation difference to be significant, the auditor recommended complying with established procedures.	The Department of Liquor Control purchased a new ERP Warehouse Management System and has begun the implementation of the system. Following the implementation, DLC will use the FIFO methodology to value its inventory.

1. Discussion of the Independent Auditor's Findings and County Government's Response

BDO USA's audit of the County Government's financial statements identified four material weaknesses and five significant deficiencies. The table below summarizes the subject matter of each of the Auditor's findings, identifies whether the finding is related to the ERP implementation, and describes the status of corrective action. For the complete findings and Management's response, see ©3-14.

As the information in the table shows, the County Government management concurs with all of the issues identified and, to date, has taken corrective action to address or begin addressing many of them. Staff from the Department of Finance and other departments will be present at the meeting to respond to Councilmember questions.

Summary of Findings in BDO USA's FY12 *Report on Internal Control*

Finding	ERP Related?	Status of Corrective Action	Identified in FY11 Audit?
Material Weaknesses			
Change in the Control Environment due to Systems Conversion (ERP)	Yes	Underway	No
Reconciliation of Cash Accounts (Finance)	Yes	Underway	Yes
Reconciliation of Accounts Payable (Finance)	Yes	Underway	No
Accuracy and Completeness of the Schedule of Expenditures of Federal Awards (Finance)	No	Exploring Options	No
Significant Deficiencies			
Employee Retirement Plans (Finance)	Yes	Underway	No
Journal Entry Approval (Finance)	No	Exploring Options	Yes
Logon Accounts and Change Control Management (ERP)	Yes	Developing Plan/Underway	No
Access to Applications (ERP)	Yes	Developing Plan	No
Review of Potential Security Violations (ERP)	Yes	Developing Plan	No

2. Follow-Up from FY 2011 Audit Findings

Each year, auditors typically review prior-year audit findings – either from a *Report on Internal Control* or in a management letter – to ascertain whether management has corrected any issues identified. For the federal Single Audit (a federally-mandated annual audit of County Government programs receiving federal funds), the federal Office of Management and Budget requires auditors to follow up on comments made in prior years related to federal programs. Auditors will also typically review an entity's response to other audit comments (not related to federal programs) as part of the auditor's required review of an entity's internal controls.

Follow-Up from FY11 Audit Findings. Last year, CliftonLarsonAllen LLP identified two material weaknesses and eight significant deficiencies in its FY11 *Report on Internal Control* relating to the audit of the County Government's financial statements.

As part of its FY12 work, BDO USA revisited the issues identified in the FY11 audit, noted whether the issues were also identified in this year's audit, and noted how the findings changed. The table below shows the ten matters that CliftonLarsonAllen identified in FY11. This year, BDO USA re-identified three prior-year issues – and found that two of the issues identified posed a lesser degree of risk to the County Government than they did last year. Seven of the issues identified last year were not re-identified this year.

Summary of CliftonLarsonAllen FY11 Audit Findings

Finding	FY11 Status	FY12 Status	FY12 Risk to MCG
Bank Reconciliations	Material Weakness	Material Weakness	Same
Approval of Journal Entries	Material Weakness	Significant Deficiency	Lower
Timing of CFO Certification of Municipal Solid Waste Landfill Facilities (DEPT)	Significant Deficiency	Not Repeated	Lower
Price of Liquor Inventory (DLC)	Significant Deficiency	Not Repeated	Lower
Duplication of Escrow Deposits (DPS)	Significant Deficiency	Not Repeated	Lower
Removal of Special Forgiveness Loans (DHCA)	Significant Deficiency	Control Deficiency	Lower
Recording of Duplicate Expenditures (Finance)	Significant Deficiency	Not Repeated	Lower
Identification of Fixed Assets in ERP System (Finance)	Significant Deficiency	Not Repeated	Lower
Land Sale Transaction (DOT/PLD)	Significant Deficiency	Not Repeated	Lower
Conversion of Depreciation Expenses in ERP (Finance)	Significant Deficiency	Not Repeated	Lower

B. FY 2012 Audit of the Montgomery County Employees Retirement Plans

BDO USA audited the statement of plan net assets of the Montgomery County Employee Retirement Plans for the year ended June 30, 2012. The auditor found that the financial statements present fairly, in all material respects, the net assets of the Plans and the changes in plan net assets. BDO USA issued a letter indicating that it did not identify any deficiencies in internal controls for the Plans that it considered material weaknesses (see ©27-29).

C. Federal Single Audit

The Federal Single Audit (also referred to as the OMB A-133 Audit) is a federally-mandated audit performed on entities that expend \$500,000 or more in federal funds in a year. Typically, this work is performed by a certified public accounting firm. As part of the Council's contract for audit services, the external auditor performs this work annually for the County Government. The findings from this audit work are compiled in the County Government's *Report on Expenditure of Federal Awards*, prepared annually by the Department of Finance. See ©30.

The *Report on Expenditure of Federal Awards* describes any deficiencies in internal control indentified in the audit of the County Government's financial statements and also includes any additional findings specifically related to the auditor's examination of the County Government's expenditure of federal funds.

In addition to the four material weaknesses and five significant deficiencies identified as part of BDO USA's audit of the County Government's financial statements (summarized above on page 4 and found on ©3-14), BDO USA identified six additional findings related to the County Government's expenditure of federal funds. These complete findings and management's responses are found on ©63-73.

In addition, BDO USA reexamined the one finding identified by CliftonLarsonAllen in last year's single audit and reported that that finding had been corrected in the current year.

The table below summarizes BDO USA's findings identified in the Single Audit work.

Summary of Findings from BDO USA's FY12 Single Audit Work

Federal Program	Topic	Summary	Finding and Management's Response
ARRA – Energy Efficiency and Conservation Block Grant Program	Cash Management	One drawdown of funds was prepared and approved by the same personnel.	© 63
Highway Planning and Construction Cluster (Federal-Aid Highway Program)	Davis-Bacon Act	A contractor, hired by the County Government to ensure compliance with the Federal Davis-Bacon Act related to prevailing wage rates, did not obtain required documentation from other County Government contractors or subcontractors in a timely manner.	© 64
Medical Assistance Program Cluster	Eligibility	The Department of Health and Human Services (DHHS) was not able to provide signed application forms, form information, or participant files for certain participants in the Medical Assistance program.	© 66
Temporary Assistance for Needy Families	Eligibility	DHHS was not able to find income verification support, income determination information, and a signed application form for certain participants in the TANF program.	© 68
Social Security Block Grant	Eligibility	DHHS was not able to provide documentation of a required notice and DHHS incorrectly re-assessed one participant.	© 70
ARRA – Energy Efficiency and Conservation Block Grant Program	Subrecipient Monitoring	One subrecipient of funds from the County's Energy Efficiency and Conservation Block Grant Program did not report the funding in its own Single Audit.	© 72

D. Other Audit Work

The subsections below summarize BDO USA's findings from other audit work that it performed this year.

1. Agreed-Upon Procedures – Related to the Annual Certification of Financial Assurance Mechanisms for Local Government Owners and Operators of Municipal Solid Waste Landfill Facilities

These agreed-upon procedures² are related to an assessment of the County Government's compliance with Federal financial assurance criteria related to Local Government owned and operated solid waste landfills. BDO USA found no exceptions as a result of the procedures they performed. The auditor's report is attached at ©76.

2. Agreed-Upon Procedures – Related to the Federal Transit Administration's National Transit Database

These agreed-upon procedures are performed to assist users in evaluating assertions by County Government management of the County Government's compliance with data recording and reporting requirements related to the Federal National Transit Database. To the extent that BDO USA found errors in the data reported, the errors were corrected in the final version of forms submitted to the National Transit Database. The auditor's report is attached at ©79.

3. Maryland 9-1-1 Emergency Number Systems Program – Schedule of Maintenance and Operating Revenues and Expenses

BDO USA audited the Schedule of Maintenance and Operating Revenue and Expenditures of the Maryland 911 Emergency Numbers Systems Program of Montgomery County (the Program) for the year ended June 30, 2012. The auditor found that the Schedule presents fairly, in all material respects, the maintenance and operating revenue and expenditures of the Program for the year ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America. The report is attached at ©89.

4. Audit of the Financial Statements of the Montgomery County Union Employees Deferred Compensation Plan

BDO USA is in the process of performing an audit of the financial statements of the Montgomery County Union Employees Deferred Compensation Plan for the calendar year ended December 31, 2012. I will transmit the results of this audit work to the Audit Committee when it is complete.

² For the agreed-upon procedures work, the auditor performs procedures agreed to by County Government management.

The following documents related to the audits are attached.

Attachment	Begins on
Audit of the County Government's Financial Statements	
<i>FY12 Independent Auditor's Report</i>	© 1
<i>Report on Internal Control</i> for the FY12 audit of the County Government Financial Statements	© 3
<i>Internal Control Deficiencies</i> Report for the FY12 audit of the County Government Financial Statements	© 15
Executive Branch Response to the FY12 <i>Internal Control Deficiencies</i> Report	© 22
Audit of the Montgomery County Employee Retirement Plans	
<i>FY12 Independent Auditor's Report</i>	© 27
Letter Indicating No Material Weaknesses In Internal Control for the FY12 audit of the Montgomery County Employee Retirement Plans	© 29
Single Audit	
<i>Report on Expenditure of Federal Awards</i>	© 30
Other Audit Work	
Agreed-Upon Procedures – Annual Certification of Financial Assurance Mechanisms for Local Government Owners and Operators of Municipal Solid Waste Landfill Facilities	© 76
Agreed-Upon Procedures – Federal Transit Administration's National Transit Database	© 79
Maryland 9-1-1 Emergency Number Systems Program – Schedule of Maintenance and Operating Revenues and Expenses	© 89



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Independent Auditor's Report

The Honorable County Council
of Montgomery County, Maryland
Rockville, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of **Montgomery County, Maryland** (the County), as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montgomery County Public Schools, the Housing Opportunities Commission of Montgomery County, Maryland, the Montgomery College, the Montgomery County Revenue Authority, and the Bethesda Urban Partnership, Inc. which represents 100% of the total assets, revenues, and net assets of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those presented component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Bethesda Urban Partnership, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2012, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis; budgetary comparison information for the general, revenue stabilization, housing initiative, and grants funds; and retiree health benefits trust supplement, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements. The combining and individual fund financial statements and supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described previously, and the report of other auditors, the combining and individual fund financial statements and supplementary schedules as listed in the table of contents are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

BDO USA, LLP

December 21, 2012



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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable County Council
of Montgomery County, Maryland
Rockville, Maryland

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of **Montgomery County, Maryland** (the County) as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 21, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Montgomery County Public Schools, the Housing Opportunities Commission of Montgomery County, Maryland, the Montgomery College, the Montgomery County Revenue Authority, and the Bethesda Urban Partnership, Inc., as described in our report on the County's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Bethesda Urban Partnership, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies identified below and described in greater detail in Appendix A to be material weaknesses.

- I. Changes in the Control Environment due to Systems Conversion.
- II. Reconciliations of Cash Accounts.
- III. Reconciliations of Accounts Payable.
- IV. Accuracy and Completeness of the Schedule of Expenditures of Federal Awards (SEFA).

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies identified below and described in greater detail in Appendix A to be significant deficiencies.

- V. Employee Retirement Plans.
- VI. Journal Entry Approval.
- VII. Logon Accounts and Change Control Management.
- VIII. Access to Applications.
- IX. Review of Potential Security Violations.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the County in a separate letter. The County's responses to the findings identified in our audit are included in Appendix A. We did not audit the County's responses and, accordingly, we express no opinion on them. The status of prior year instances of deficiencies is presented in Appendix B.

This report is intended solely for the information and use of the County Council, the County's management, federal awarding agencies, pass-through entities, and others within **Montgomery County, Maryland** and is not intended to be and should not be used by anyone other than these specified parties.

BDO USA, LLP

December 21, 2012

Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting**Changes in the Control Environment due to Systems Conversion**

In an effort to provide integrated management decision-making information including financial and operational activities, the County converted financial reporting systems during fiscal year 2011.

Subsequently, during fiscal year 2012, we noted variations of user satisfaction and user knowledge with the new system and programming work, along with a magnitude of required post-implementation corrections. Due to this variation in user knowledge, there was a direct impact on user ability to generate the required reports from the new system to facilitate the audit process. We recommend that all concerned parties (including operations and user personnel) and particularly, the controller's group continue to participate in training in the use of the new software's reporting functions. This will help ensure that producing internal financial reports and other required schedules for various business processes becomes a standard and relatively simple procedure.

Further, during fiscal year 2012, there were a number of users that were assigned system administrator authority or privileges (i.e. Administrator, Security Administrator, Domain Administrator, Super User, etc.) on the Windows and Linux environments and on the Oracle and PeopleSoft applications. We noted the following during our procedures:

- A number of users have the ability to migrate Oracle Financials application changes within the production environment.
- Three (3) Data Base Administrators and the Enterprise Services and Operations Technology Expert have been granted administrative access or full access rights to one or more of the following: the Windows Domain, Linux environment, and Oracle Financials application. In addition, the Enterprise Services and Operations Technology Expert also has the ability to modify the production job schedules.
- The Accounts Payable Manager has been granted administrative system access for a limited amount of time to the Oracle Financials application creating a segregation of duties risk.
- The Systems Control Manager, who is responsible for assigning user access, has been granted administrative access rights to the PeopleSoft and Oracle applications, creating a segregation of duties risk.

This presents an increased and heightened risk for unauthorized or inappropriate access to data and information that could have a significant impact on the financial reporting process. To maintain the desirable separation of duties, we recommend that management should review and evaluate who should be assigned system administrator authority on the Windows and Linux environments and on the Oracle and PeopleSoft applications. These access rights should be limited and only be granted to those key users who require these privileges within their functional area of authority. Lastly, management's review should be documented and retained.



Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting

Management's Response:

As with any new large complex enterprise-wide system implementation and business process reengineering effort, there are significant change management and learning curve aspects that impact all levels of users. There is also a period of time where post-implementation issues will arise that must be resolved, and where reevaluation of business process opportunities, to maximize system capabilities, will continue. The County is in the process of these efforts. As part of this process, ERP team and business process owners work together to identify issues, underlying causes, and opportunities for improvement, and to prioritize resources assigned to such efforts. Training programs have been updated and are made available to impacted County employees. Significant resources and expertise are also dedicated to continued development of reporting tools and reporting dashboards.

As it relates to specific issues noted above:

- The County has reviewed the system administrator accounts and has removed Oracle Financial application administrator privileges from the Expert since the business need is not required moving forward. The County is in the process of developing additional controls to monitor for and prevent unauthorized access that could compromise operations or financial reporting.
- Given that the County server architecture is highly virtualized and supported by a large matrix team, the County has a business requirement to provide sufficient coverage for scheduled maintenance, including monthly patching, as well as the ability to respond to system issues quickly. The County is evaluating the continuing business and operations requirements and the administrator privilege assignments in order to identify potential changes to reduce potential risks balanced with business operations and support.
- The Accounts Payable Manager (ERP subject matter expert) was provided administrative system access to the Oracle Financials application for four days, after go-live when the implementer is restricted from access to the production environment for internal control purposes, to set up a new functionality. With the implementation of the Change Control Process, administrative system access will require formal review and approval through a change request.
- The Systems Control Manager is responsible for managing all user access for the Enterprise Service systems (PeopleSoft, Oracle, Hyperion, OBIEE reporting tool). All changes to PeopleSoft require a Change Request, testing, and approval from the business owner. The County will review and evaluate PeopleSoft roles and responsibilities to determine the feasibility of limiting specific responsibilities.

Reconciliations of Cash Accounts

During much of the year, various bank account reconciliations appeared to be generally incomplete. For instance, the July 31, 2011 bank reconciliation was not completed until August 2012 and upon reconciliation, significant adjustments and unreconciled items were discovered which resulted in a substantial adjustment to the County's general ledger cash balance.

Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting

Cash is the most liquid of assets and has the highest risk for theft, embezzlement, and misappropriation. Not reconciling such accounts on a periodic basis means that errors or other problems might not be recognized and resolved on a timely basis. Further, unreconciled differences that appear immaterial can obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent.

Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements. As such, we recommend that management review its current procedures and make necessary changes to ensure that bank reconciliations are prepared on a periodic basis. A further benefit of regular reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

Management's Response:

The County concurs with this finding. However, although various FY12 bank account reconciliations were not completed in a timely manner, the reconciliations were completed in significantly less time than in FY11 due to improvements implemented in FY12. FY11 was the first full year utilizing the County's new ERP system and cash management capabilities, including related reengineered business processes. Management continues to work in conjunction with the ERP Office to develop and implement solutions to the issues which have been preventing the County from completing monthly bank reconciliations in a timely manner.

Improvements being implemented in FY13 include, but are not limited to:

- Developing interfaces into the Oracle Accounts Receivable module (A/R) to eliminate or reduce manual efforts and streamline reconciliation processes, and to improve internal controls, in the following areas:
 - For four key departments, to allow recording through A/R instead of directly through the General Ledger, thus enabling effective use of the Cash Management module (CM) matching capabilities;
 - Automated matching of one-to-one receipts; and
 - Enhancing matching of single cash receipts to multiple-revenue-line invoices.
- Continuing to identify and establish separate bank accounts for large and high volume revenue streams in order to facilitate the reconciliation process;
- Incorporating the unique reference number generated by the bank into the daily bank interface file to use as a key matching field for electronic funds transfers in CM;
- Enhancing the use of automated software tools throughout more of the reconciliation processes; and
- Continuing outreach to departments to develop solutions to business process related issues that prevent timely reconciliation.



Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting

Reconciliations of Accounts Payable

During much of the year, the accounts payable detail had not been reconciled to the general ledger balance. The lack of this control feature allows for differences to occur and accumulate over a period of time. Ultimately, the determination of the actual payables balance is virtually impossible without a significant time investment in a lengthy reconciliation process.

To maintain proper control over accounts payable, a reconciliation of accounts payable from the general ledger to the outstanding accounts payable register should be prepared to determine that all additions to, and payments of, accounts payable are correctly recorded and to determine whether there are any disputed items. If any differences exist, they should be investigated and resolved promptly.

We recommend that management review its current procedures and make necessary changes to ensure that accounts payable reconciliations are prepared on a periodic basis to ensure that the general ledger balance reflects the proper accounts payable amount as supported by the subsidiary system.

Management's Response:

The County concurs that the accounts payable detail should be reconciled to the general ledger. The County reconciles the accounts payable detail on an enterprise-wide basis to the general ledger monthly. However, the County does not reconcile the accounts payable detail by fund until year-end. The County is currently working on configuration changes to the ERP as well as changes to the associated business processes to allow for the efficient monthly reconciliation of accounts payable by fund to the general ledger.

Accuracy and Completeness of the Schedule of Expenditures of Federal Awards (SEFA)

The County receives grant and contract funds from various funding agencies. These situations necessitate a strong accounting system to record specific grant and contract activities. We noted the following during our procedures:

- The County was not able to produce an accurate SEFA in a timely manner. The SEFA had significant errors pertaining to the Catalog of Federal Domestic Assistance (CFDA) references. The CFDA serves as the basic reference source of Federal programs and facilitates coordination and communication between the Federal government and State and local governments.

It appears that adequate information was not available from all State and/or Federal granting agencies in a timely manner to produce the preliminary SEFA with the proper classification of CFDA references. Hence, various CFDA references and related expenditures were misclassified. This resulted in erroneous reporting and delays in the overall audit process and necessitated additional test work.

Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting

- Our audit procedures also disclosed that automated controls are not in place to capture Federal expenditures incurred under capital projects which enhances the risk that a department project manager may not be fully aware of Federal reporting requirements and thereby, the County may fail to fully report Federal expenditures incurred under capital projects.
- In addition, while performing final due diligence, management discovered that intergovernmental revenues amounting to \$1.8 million were inadvertently misclassified and consequently the related federal expenditures had not been included in the SEFA. This adjustment was provided late in the audit process, resulting in additional analysis and delays in order to ensure accuracy of the SEFA and confirmation that there was adequate coverage of federal expenditures.

The accounting system should facilitate the reporting requirements of each contract and grant. We recommend that management consider establishing respective fields within the accounting system to include the input of a CFDA reference at the start of a grant program. Management should also re-emphasize the importance of such information to employees handling grants and contracts to avoid the recurrence of such errors and misclassifications. This communication involves not only making sure that appropriate employees are aware of established policies and procedures but also for providing the necessary training to ensure they understand how to interpret and execute them.

Management's Response:

The County concurs with this finding. The County has a strong manual process in place to compile accurate information needed for the SEFA. This process includes obtaining written communication from granting agencies on CFDA numbers and capital project program reporting and administrative requirements. For the FY12 SEFA, this manual process was significantly delayed and abbreviated as a result of the delayed issuance of the FY11 financial statements. Nevertheless, the County is exploring ways to automate parts of the process such as including a specific field in the ERP system for CFDA numbers.

Employee Retirement Plans

During our procedures over the Employees' Retirement System, the Retirement Savings Plan, and the Deferred Compensation Plan, we noted that contributions to the respective plans had not been reconciled to the County's payroll records in a timely manner during the year. As such, problems were encountered in the year-end closing and audit process, which resulted in delays in the delivery of the final report. We recommend that proper account analysis be performed on a current and timely basis.

Management's Response:

The County concurs with the finding. However, reconciliations between vendors and County systems were prepared shortly after year-end for the FY12 audit, and all amounts remitted to the Retirement Plans were verified to payroll records for each pay period.



Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting

The Department of Finance, in conjunction with the staff from the ERP team, Office of Human Resources, and the Montgomery County Employee Retirement Plans will continue to work diligently to revise this business process, so that retirement contributions are being reconciled to the general ledger and third party vendors on a timelier basis for FY13.

Journal Entry Approval

During our sample test work over journal entries, we noted that 1 out of 14 items selected lacked proper approval by a responsible employee. This presents an increased and heightened risk for unauthorized or incorrect journal entries.

We recommend the enforcement of existing policies whereby all journal entries are approved by the controller or other designated member of management. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals. Management may consider spot checks and formal investigation of any instances of lack of approval and implement any preventive steps to avoid such occurrences.

Management's Response:

Management concurs that all journal entries must be properly approved prior to posting. The entry in question was a routine reversal of a properly reviewed and approved FY11 year-end entry that was done for reporting purposes. The reversing entry was reviewed and posted by an employee other than the one who prepared it, as required by the existing Finance Department procedure for journal entry approval and posting. However, the posting employee failed to sign the journal entry cover sheet and supporting documentation as required by existing procedures. Finance has sent correspondence to all staff in the Controller's Office reminding them of the existing journal entry approval and posting procedure.

The County is also exploring the possibility of implementing Oracle workflow for its journal entry and approval process in FY14, thus eliminating the need for manual approvals.

Logon Accounts and Change Control Management

We noted the following during our procedures:

- Logon Accounts - When users are given access to the system, a user logon account is created for them that contains descriptive information about the user and about the user's access privileges. Good security practices include modifying these accounts when users change departments, job responsibilities or roles, and deleting the accounts if employees leave. Good practices also include reviewing or re-certifying the logon user accounts periodically to ensure that established security practices are functioning as intended. Due to the lack of a periodic review process, a terminated outside consultant/contractor had not been removed/disabled of their respective administrator access rights to the Oracle Financials application.

Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting

We recommend the County should consider developing and implementing procedures to ensure that user accounts for logon to all systems (e.g., network, Linux, Oracle, PeopleSoft, etc.) do not contain accounts for inactive employees, that there are no duplicate accounts, and that existing accounts allow employees access to only what they require for their job responsibilities or roles.

- **Change Control** - There are no formally approved written policies and procedures to provide proper guidance and oversight for requesting changes to existing computer applications. We noted the following:
 - For an Oracle Financials application change request, at the time of our review, there was no formal approval documented within the SharePoint change ticket.
 - For a PeopleSoft change request, there was no appropriate documentation maintained to demonstrate the user acceptance testing that had been performed. In addition, it was noted at the time of our review, that the program change was implemented into the production environment without the appropriate levels of approval.

As a result, system support activities are being performed and implemented without documented management approval. A formal change control methodology should be reviewed and enforced to ensure requested system modifications are documented and reviewed, appropriate approvals are received, and changes are tested by the requesting party prior to migration into the production environment.

Inappropriate system modifications to applications can cause incorrect calculations and compromise functionality.

Management's Response:

Logon Accounts - The County is developing an Identity Management System intended to eventually include workflow approvals, user roles approval and provisioning, and auditing. Given that the full implementation will take some time, the County is evaluating near term improvements to network and application account provisioning and control. The County is also reviewing the existing periodic reviews of accounts to determine if frequency needs to be increased and documentation of results can be improved.

Change Control - During ERP implementation, the County used the implementers (Ciber's) "Workspace" application to document changes. The County converted from Workspace to the County's Change Control Process housed in SharePoint in September 2012. The ERP team has a formal review and approval process of all change requests, approvals, configuration, modifications, and testing. This is being tracked centrally in SharePoint. Written procedures and policies are being developed and should be complete by April 2013.

Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting**Access to Applications**

During our test work, we noted there was no formal notification/documentation to add or remove an employee's user profile (i.e. USERID) from the network and application systems as follows:

- Documentation was not maintained for an employee who was granted access to the Windows Active Directory.
- Documentation was not maintained for a terminated employee who was removed/ disabled from the Windows Active Directory and for an outside consultant/contractor who was not removed/disabled from the Oracle Financials application, when he should have been.
- Approval documentation was not maintained for a newly hired employee who was granted "Pension Generalist" access privilege to the PeopleSoft application.

Without proper documentation, management is not assured that its policies and procedures are being properly carried out. Further, without a base against which the user accounts can be compared, it is difficult to analyze the completeness and accuracy of the user accounts. As such, we recommend the County should consider developing a formal procedure for establishing, approving, or removing user account profiles on the network and the application systems. The policies and procedures should clearly document the type of requests received and made by users, employee user identification, date requested for any additions, modifications, or deletions of user accounts, and any other special requirements.

Management's Response:

The County is developing an Identity Management System intended to eventually include workflow approvals, user roles approval and provisioning, and auditing. Given that the full implementation will take some time, the County is evaluating near term improvements to network and application account provisioning and control. The County is also reviewing the existing periodic reviews of accounts to determine if frequency needs to be increased and documentation of results can be improved.

Review of Potential Security Violations

Various system events can indicate a potential security violation or it can indicate the need for security related training for individuals or departments. We noted the County does not review potential security violations over the ERP infrastructure and applications (i.e. operating system, application, data base). Consequently, there is a risk that potential security violations are occurring, unintentionally or intentionally, which exposes the County's information systems and assets.



Material Weaknesses and Significant Deficiencies in Internal Control Over Financial Reporting

We recommend the County should consider establishing procedures to review and investigate potential security violations within the ERP infrastructure and applications. The procedures should start with proper systems security facilities being set up to record specified Linux event/history logs that could be considered potential security risks (e.g. violating password security by exceeding a specified number of incorrect USERID's or passwords). The system should record these activities in system logs or audit logs as they occur.

At a specified time interval (at least monthly), a designated individual should review these logs that are generated and summarize the activities of these logs, and identify areas of concern, which should be brought to management's attention. Further, management's review should be documented and retained.

Management's Response:

The County is planning to expand its use of the existing log correlation system currently used for Windows Active Directory (AD) and network environments to the ERP Linux environment including server OS and databases to strengthen internal controls, better identify potential security violations, and take appropriate actions as needed.



Status of Prior Year Material Weaknesses and Significant Deficiencies

Nature of Comment	Type of Comment in Fiscal Year 2011	Current Year Status
Reconciliations	Material Weakness	Material Weakness
Journal Entries	Material Weakness	Significant Deficiency
Annual CFO Certification of Municipal Solid Waste Landfill Facilities	Significant Deficiency	Not Repeated
Liquor Inventory	Significant Deficiency	Not Repeated
Escrow Deposits	Significant Deficiency	Not Repeated
Special Forgiveness Loans	Significant Deficiency	Control Deficiency
Cut-off Procedures - Duplicate Expenditures	Significant Deficiency	Not Repeated
Fixed Assets	Significant Deficiency	Not Repeated
Land Sale Transaction	Significant Deficiency	Not Repeated
Depreciation Expense	Significant Deficiency	Not Repeated



Montgomery County, Maryland

Internal Control Deficiencies
Year Ended June 30, 2012

Montgomery County, Maryland

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7101 Wisconsin Avenue, Suite 800
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March 1, 2013

The Honorable County Council
of Montgomery County, Maryland
Rockville, Maryland

During the course of our audit of the financial statements of **Montgomery County, Maryland** (the County) for the year ended June 30, 2012, we observed the County's significant accounting policies and procedures and certain business, financial, and administrative practices.

In planning and performing our audit of the financial statements of the County as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we have identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis.

We believe that the following deficiencies constitute material weaknesses:

- I. Changes in the Control Environment due to Systems Conversion.
- II. Reconciliations of Cash Accounts.
- III. Reconciliations of Accounts Payable.
- IV. Accuracy and Completeness of the Schedule of Expenditures of Federal Awards (SEFA).

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We consider the following deficiencies to be significant deficiencies in internal control:

- V. Employee Retirement Plans.
- VI. Journal Entry Approval.
- VII. Logon Accounts and Change Control Management.
- VIII. Access to Applications.
- IX. Review of Potential Security Violations.

We refer the County Council to the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. This report, dated December 21, 2012, describes in greater detail the aforementioned material weaknesses and significant deficiencies as noted for the year ended June 30, 2012.

We have also prepared the enclosed memorandum containing suggestions for improvements in the County's internal control that we did not consider to be significant deficiencies or material weaknesses. Furthermore, they did not affect the fair presentation of the financial statements.

This communication is intended solely for the information and use of County management, the County Council, and others within **Montgomery County, Maryland** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

BDO USA, LLP



Cycle: Purchases

P-Card Purchases

The County's P-Card program is intended to provide an efficient method of paying for small-dollar items which would enable cardholders to obtain supplies directly from vendors without meeting the voucher or purchase order requirements of other procurement processes. P-Cards are to be used for purchases with a total value of \$10,000 or less that are not under County contract. During our test work over P-Card purchases, for 2 out of 30 items selected, we noted the respective expenses had not been approved in accordance with the County's established guidelines. This practice could allow for unauthorized purchases to occur and not be detected. We recommend that approvals for purchases should always be obtained and properly documented.

P-Card Accruals

During our procedures, we noted that accruals related to P-card transactions are not established for individual transactions below \$1,000. Further, there did not appear to be any analysis conducted by management to determine the total impact of these unrecorded accruals at June 30, 2012. The current process and lack of analysis could potentially result in a material aggregated balance not being reconciled at period end. We recommend that management consider analyzing accruals for amounts below \$1,000.

Cycle: Receivables

Analysis and Updating of Reserves

We noted the following during our procedures:

- Property tax receivables - Balances have been allowed to build up as the accounts have aged. The collectability of these items, while appearing to be proper charges, may be doubtful. The adequacy of the allowance should be reviewed and adjusted based on the success of the County's collection efforts, accounts aging, and an overall evaluation of the accounts.
- Liquor receivables - The current allowance methodology for liquor receivables has not been re-evaluated in recent years. The County should reevaluate and establish allowance percentages for liquor receivables based on historical collection rates.
- Mortgages receivables - During our procedures over housing loans, for 1 out of 13 confirmations received for transactions in the Housing Initiative Fund, we noted that a reserve had not been established for a forgivable loan. In addition, we noted that a reserve had not been established for 3 of 17 items selected for testing in the Grants Fund despite the fact that these were due and demandable in 2012. We recommend the County review its mortgage receivables loan portfolio periodically and ensure that forgivable loans and other uncollectable loan positions of borrowers are adequately reserved for. The reconciliation and review of the borrower's balances is an effective and efficient method in ensuring an appropriate reserve balance at year end.



Cycle: Payroll

Accuracy of Participant Demographic Data

A Plan administrator or fiduciary's responsibility includes ensuring that the Plan(s) has adequate controls in place to provide accurate and timely information with respect to participant data and maintaining adequate documentation which supports Plan transactions.

- During our audit procedures related to distributions in the Retirement Savings Plan, we noted several instances in which controls over demographic data could be improved. Specifically, we observed that controls relating to ensuring the accuracy of hiring/eligibility dates reported to the vendor should be improved.
- Additionally, during our sample test work over contributions in the Retirement Savings Plan, for 1 out of 14 participants selected, we noted the contribution amount did not agree with the same information at Fidelity. This resulted in the participant being erroneously paid for one pay period. While this additional payment was subsequently adjusted in the general ledger, it appears that Fidelity and the County did not ensure proper reconciliation of the contribution amount on a timely basis. This lack of timely reconciliation resulted in the payment of excess contributions to the employee upon termination.

We recommend that management improve and strengthen existing controls to ensure that all employee data is reconciled to its third-party service provider(s) on a timely basis.

Cycle: Inventory

Inventory Valuation

During our procedures over liquor inventory, we noted that the stated valuation methodology of first-in, first-out (FIFO) is not being utilized. The County uses the market valuation method instead. Although the difference between FIFO and the market valuation method used by the County was not deemed significant, we recommend the County comply with its established guidelines.



Status of Prior Year Internal Control Deficiencies

Cycle	Nature of Prior Year Comment	Current Year Status
Receivables	Housing Initiative Loans were not reconciled between the subsidiary ledger and general ledger	Not Repeated




OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

April 1, 2013

TO: Nancy Navarro, Council President

FROM: Isiah Leggett, County Executive 

SUBJECT: Response to Suggestions for Improvements in the County's Internal Control/
Internal Control Deficiencies report from BDO USA, LLP for the Audit of
County Government Financial Statements for the Year Ended June 30, 2012

Attached please find the Executive Branch's formal response to the suggestions for improvements in the Internal Control Deficiencies report referenced above. This response is being provided as requested in your memorandum of March 19, 2013.

We look forward to discussing the recommendations, and the County's progress in implementing improvements, with the Government Operations and Fiscal Policy Committee on April 4, 2013. If you or your staff have any questions relating to the attached prior to that date, please contact Joseph Beach, Director, Department of Finance, at 240-777-8870.

Attachment

cc: Timothy L. Firestine, Chief Administrative Officer
Joseph F. Beach, Director, Department of Finance
Linda Herman, Executive Director, Board of Investment Trustees
Jennifer Hughes, Director, Office of Management and Budget
Kathleen Boucher, Assistant Chief Administrative Officer
George Griffin, Director, Department of Liquor Control
Rick Nelson, Director, Department of Housing and Community Affairs
Joseph Adler, Director, Office of Human Resources
Steve Farber, Council Staff Director

Attachment

County Response to Suggestions for Improvements in the County's Internal Control
For the Audit of County Government Financial Statements
For the Fiscal Year Ended June 30, 2012

P-Card Purchases

Recommendation:

The County's P-Card program is intended to provide an efficient method of paying for small-dollar items which would enable cardholders to obtain supplies directly from vendors without meeting the voucher or purchase order requirements of other procurement processes. P-Cards are to be used for purchases with a total value of \$10,000 or less that are not under County contract. During our test work over P-Card purchases, for 2 out of 30 items selected, we noted the respective expenses had not been approved in accordance with the County's established guidelines. This practice could allow for unauthorized purchases to occur and not be detected. We recommend that approvals for purchases should always be obtained and properly documented.

Management Response:

The County concurs with this recommendation. The County policy is that all P-Card transactions be approved in the P-Card system by a designated approver within an established timeframe. The P-card administrator provides monthly reminders of cycle deadlines to cardholders and approvers. The P-Card administrator also periodically reviews a judgmental sample of approvals in the system to ensure departments are complying with this policy. The County recently hired an additional personnel resource for P-Card administration that will allow the P-Card administrator to perform more frequent reviews of P-Card approvals. The two departments in question have also been reminded of existing county policies regarding documentation of approvals. Furthermore, the County recently expanded the ability of the administrator to monitor department compliance with documentation requirements by implementing a new imaging system. Departments are required to image all supporting documentation related to P-Card transactions, which is stored in a central database accessible to the P-Card administrator.

P-Card Accruals

Recommendation:

During our procedures, we noted that accruals related to P-card transactions are not established for individual transactions below \$1,000. Further, there did not appear to be any analysis conducted by management to determine the total impact of these unrecorded accruals at June 30, 2012. The current process and lack of analysis could potentially result in a material aggregated balance not being reconciled at the period end. We recommend that management consider analyzing accruals for amounts below \$1,000.

Management Response:

The County concurs with this recommendation. The County has in the past performed various analyses over the materiality of thresholds related to accounts payable transactions. The County will specifically reevaluate the materiality of potentially unrecorded accruals for P-card transactions below \$1,000.

Analysis and Updating of Reserves**Recommendation:**

We noted the following during our procedures:

- Property tax receivables - Balances have been allowed to build up as the accounts have aged. The collectability of these items, while appearing to be proper charges, may be doubtful. The adequacy of the allowance should be reviewed and adjusted based on the success of the County's collection efforts, accounts aging, and an overall evaluation of the accounts.
- Liquor receivables - The current allowance methodology for liquor receivables has not been re-evaluated in recent years. The County should reevaluate and establish allowance percentages for liquor receivables based on historical collection rates.
- Mortgages receivables - During our procedures over housing loans, for 1 out of 13 confirmations received for transactions in the Housing Initiative Fund, we noted that a reserve had not been established for a forgivable loan. In addition, we noted that a reserve had not been established for 3 of 17 items selected for testing in the Grants Fund despite the fact that these were due and demandable in 2012. We recommend the County review its mortgage receivables loan portfolio periodically and ensure that forgivable loans and other uncollectable loan positions of borrowers are adequately reserved for. The reconciliation and review of the borrower's balances is an effective and efficient method in ensuring an appropriate reserve balance at year end.

Management Response:

- Property tax receivables – The County agrees that property tax receivable balances should be actively managed with amounts that are no longer collectible written off. Property tax receivables are actively managed by the County until the Office of the County Attorney determines an amount is not collectible or the appropriate County or State agency, instrumentality or municipality determines an amount should be corrected. Once this determination is made the amount is written off or adjusted. This is not a frequent occurrence. The County has over a 99% collection rate. The County has property tax receivables that are more than a year old; however these older receivables are still deemed collectible and are being actively managed. Also, for fund financial statements, revenues from property taxes are not recognized in a fiscal year until collected; uncollected property tax balances have no impact on fund level revenues. Therefore, the County has not established an allowance for uncollectible receivables.

Nevertheless, Finance will continue to evaluate this practice to determine if this is the most reasonable approach.

- Liquor receivables – The County concurs with this recommendation. The Department of Liquor Control (DLC) will plan on re-evaluating and updating, if necessary, the allowance percentage for its returned check receivables.
- Mortgages receivables – The County concurs with the recommendation that special forgiveness loans and forgivable notes receivable need to be properly valued for financial reporting purposes. In FY13, the Department of Housing and Community Affairs (DHCA) implemented new policies and procedures to more accurately identify all loans that have special forgiveness terms and to forgive loans and notes where the borrower has met their terms of forgiveness. The Finance Department has also implemented changes to its audit loan confirmation process in order to specifically highlight any loan or note with forgivable terms. Management believes these new policies and procedures will properly identify all special forgiveness loans for financial reporting purposes.

Accuracy of Participant Demographic Data

Recommendation:

A Plan administrator or fiduciary's responsibility includes ensuring that the Plan(s) has adequate controls in place to provide accurate and timely information with respect to participant data and maintaining adequate documentation which supports Plan(s) transactions.

- During our audit procedures related to distributions in the Retirement Savings Plan, we noted several instances in which controls over demographic data could be improved. Specifically, we observed that controls related to ensuring the accuracy of hiring/eligibility dates reported to the vendor should be improved.
- Additionally, during our sample test work over contributions in the Retirement Savings Plan, for 1 out of 14 participants selected, we noted the contribution amount did not agree with the same information at Fidelity. This resulted in the participant being erroneously paid for one pay period. While this additional payment was subsequently adjusted in the general ledger, it appears that Fidelity and the County did not ensure proper reconciliation of the contribution amount on a timely basis. This lack of timely reconciliation resulted in the payment of excess contributions to the employee upon termination.

We recommend that management improve and strengthen existing controls to ensure that all employee data is reconciled to its third-party service provider(s) on a timely basis.

Management Response:

- The County concurs with this recommendation. The Department of Finance (Finance) has established a task force of key staff from the Office of Human Resources (OHR), Finance, Enterprise Resource Planning team (ERP), and the Montgomery County Employee Retirement Plans (MCERP), to review and improve the end-to-end processes for maintaining the inventory of demographic data used by both the County and vendors. The task force is reviewing the business processes in detail to assure that the most accurate demographic data for participants is maintained between the County and its vendors.
- The County concurs that the contributions to the Employee Retirement Plans were not reconciled with the County's payroll records in a timely manner during the fiscal year. However, reconciliations between the ERP system and the retirement systems were prepared shortly after year end for the FY12 audit, and all amounts remitted to the Retirement Plans were verified to payroll records for each pay period. Finance, in conjunction with the staff from ERP, OHR, and MCERP, will continue to work diligently to revise this business process, so that retirement contributions are being reconciled to the general ledger and third party vendors on a more timely basis for FY13.

Inventory Valuation**Recommendation:**

During our procedures over liquor inventory, we noted that the stated valuation methodology of first-in, first-out (FIFO) is not being utilized. The County uses the market valuation method instead. Although the difference between FIFO and the market valuation method used by the County was not deemed significant, we recommend the County comply with its established guidelines.

Management Response:

The County concurs with this recommendation. DLC has purchased a new ERP Warehouse Management System (WMS) to replace the current WMS system which was primarily developed in-house and is over ten years old. In FY13, DLC and a group of integrators have begun the implementation of the ERP WMS replacement. The ERP WMS will be fully integrated with the County's ERP system in FY14. Subsequent to the implementation of the ERP WMS, the inventory valuation methodology for liquor will be consistent with the FIFO method.



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7101 Wisconsin Ave, Suite 800
Bethesda, MD 20814

Independent Auditor's Report

The Honorable County Council
of Montgomery County, Maryland
Board of Trustees
Montgomery County Employee Retirement Plans

We have audited the accompanying statements of plan net assets of the **Montgomery County Employee Retirement Plans** (the Plans) as of June 30, 2012, and the related statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Plans' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Plans as of June 30, 2012, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of funding progress and employer contributions on pages 15 through 19 and on page 33, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the Plans' basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plans' financial statements as a whole. The Schedules of Administrative and Investment Expenses, the Employees' Retirement System Statements of Plan Net Assets and Statements of Changes in Plan Net Assets, the Retirement Savings Plan Statements of Plan Net Assets and Statements of Changes in Plan Net Assets, the Deferred Compensation Plan Statements of Plan Net Assets and Statements of Changes in Plan Net Assets are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Administrative and Investment Expenses, the Employees' Retirement System Statements of Plan Net Assets and Statements of Changes in Plan Net Assets, the Retirement Savings Plan Statements of Plan Net Assets and Statements of Changes in Plan Net Assets, the Deferred Compensation Plan Statements of Plan Net Assets and Statements of Changes in Plan Net Assets are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The Introduction Section, the Investment Section - Employees' Retirement System, the Actuarial Section - Employees' Retirement System, and the Statistical Section - Employee Retirement Plans, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BDO USA, LLP

December 17, 2012



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7101 Wisconsin Ave, Suite 800
Bethesda, MD 20814

December 17, 2012

The Honorable County Council
of Montgomery County, Maryland
Board of Trustees
Montgomery County Employee Retirement Plans

During the course of our audit of the Montgomery County Employee Retirement Plans' (the Plans) financial statements for the year ended June 30, 2012, we observed the Plans' significant accounting policies and procedures and certain business, financial, and administrative practices.

In planning and performing our audit of the financial statements of the Plans as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Plans' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control. Accordingly, we do not express an opinion on the effectiveness of the Plans' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Plans' financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the second paragraph of this letter and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of the County Council, the Board of Trustees, and County management, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

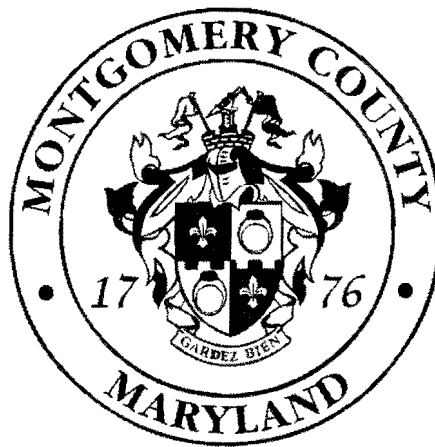
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MONTGOMERY COUNTY MARYLAND

Report on Expenditures of Federal Awards



Fiscal Year 2012

July 1, 2011 - June 30, 2012
Rockville, Maryland

MONTGOMERY COUNTY MARYLAND

Report on Expenditures of Federal Awards

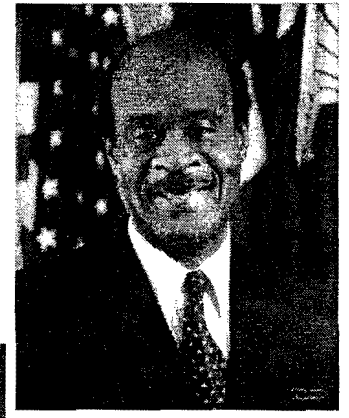


Prepared by the
DEPARTMENT OF FINANCE

Joseph F. Beach, Director
101 Monroe Street
Rockville, Maryland 20850
240-777-8860

Fiscal Year 2012
July 1, 2011 - June 30, 2012

Mission Statement



Isiah Leggett
ISIAH LEGGETT

MONTGOMERY COUNTY GOVERNMENT

WE pursue the common good by working for and with Montgomery County's diverse community members to provide:

- A Responsive and Accountable County Government
- Affordable Housing in an Inclusive Community
- An Effective and Efficient Transportation Network
- Children Prepared to Live and Learn
- Healthy and Sustainable Communities
- Safe Streets and Secure Neighborhoods
- A Strong and Vibrant Economy
- Vital Living for All of Our Residents

AS dedicated public servants, the employees of the Montgomery County government strive to embody in our work these essential values:

- Collaboration
- Inclusiveness
- Knowledge
- Competence
- Innovation
- Respect for the Individual
- Fiscal Prudence
- Integrity
- Transparency

www.montgomerycountymd.gov

Montgomery County, Maryland

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7101 Wisconsin Ave. Suite 800
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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable County Council
of Montgomery County, Maryland
Rockville, Maryland

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of **Montgomery County, Maryland** (the County) as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 21, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Montgomery County Public Schools, the Housing Opportunities Commission of Montgomery County, Maryland, the Montgomery College, the Montgomery County Revenue Authority, and the Bethesda Urban Partnership, Inc., as described in our report on the County's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Bethesda Urban Partnership, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies identified below and described in greater detail in the accompanying schedule of findings and questioned costs as items 2012-1 through 2012-4 to be material weaknesses.

- I. Changes in the Control Environment due to Systems Conversion.
- II. Reconciliations of Cash Accounts.
- III. Reconciliations of Accounts Payable.
- IV. Accuracy and Completeness of the Schedule of Expenditures of Federal Awards (SEFA).

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies identified below and described in greater detail in the accompanying schedule of findings and questioned costs as items 2012-5 through 2012-9 to be significant deficiencies.

- V. Employee Retirement Plans.
- VI. Journal Entry Approval.
- VII. Logon Accounts and Change Control Management.
- VIII. Access to Applications.
- IX. Review of Potential Security Violations.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the County in a separate letter. The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's responses and, accordingly, we express no opinion on them.



The status of prior year instances of deficiencies is presented below:

Nature of Comment	Type of Comment in Fiscal Year 2011	Current Year Status
Reconciliations	Material Weakness	Material Weakness
Journal Entries	Material Weakness	Significant Deficiency
Annual CFO Certification of Municipal Solid Waste Landfill Facilities	Significant Deficiency	Not Repeated
Liquor Inventory	Significant Deficiency	Not Repeated
Escrow Deposits	Significant Deficiency	Not Repeated
Special Forgiveness Loans	Significant Deficiency	Control Deficiency
Cut-off Procedures - Duplicate Expenditures	Significant Deficiency	Not Repeated
Fixed Assets	Significant Deficiency	Not Repeated
Land Sale Transaction	Significant Deficiency	Not Repeated
Depreciation Expense	Significant Deficiency	Not Repeated

This report is intended solely for the information and use of the County Council, the County's management, federal awarding agencies, pass-through entities, and others within **Montgomery County, Maryland** and is not intended to be and should not be used by anyone other than these specified parties.

IBDO USA, LLP

December 21, 2012



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Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Honorable County Council
of Montgomery County, Maryland
Rockville, Maryland

Compliance

We have audited the compliance of **Montgomery County, Maryland** (the County) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2012. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

The County's basic financial statements include the operations the Montgomery County Public Schools, the Housing Opportunities Commission of Montgomery County, Maryland, the Montgomery College, and the Montgomery County Revenue Authority, which received federal awards, and which are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2012. Our audit, described below, did not include the operations of the Montgomery County Public Schools, the Housing Opportunities Commission of Montgomery County, Maryland, the Montgomery College, and the Montgomery County Revenue Authority, because the organizations engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

As described in item 2012-12 in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding Eligibility that are applicable to its Medical Assistance Program Cluster. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

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In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-10, 2012-11, 2012-13, 2012-14, and 2012-15.

Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-12 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-10, 2012-11, 2012-13, 2012-14, and 2012-15 to be significant deficiencies.



Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of **Montgomery County, Maryland** as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 21, 2012, which contained an unqualified opinion on those statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Montgomery County Public Schools, the Housing Opportunities Commission of Montgomery County, Maryland, the Montgomery College, and the Montgomery County Revenue Authority.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, County Council, others within the entity, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

BDO USA, LLP

March 29, 2013

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
U. S. Department of Agriculture			
Pass Through Programs From:			
Maryland State Department of Human Resources			
Programs of the Supplemental Nutrition Assistance Program Cluster:			
State Administrative Matching Grant for Food Stamps	10.561	Maryland House Bill 669	\$ 3,699,760
Adoption Incentive Program	10.561	Maryland House Bill 669	3,439
Subtotal Supplemental Nutrition Assistance Program Cluster			3,703,199
Programs of the Emergency Food Assistance Cluster:			
FY11 Emergency Food Assistance Program - Surplus Food	10.568	OGM/FNS-09-016	\$ 31,804
FY12 Emergency Food Assistance Program - Surplus Food	10.568	OGM/FNS-12-016	12,968
Emergency Food Assistance Program (Commodities)	10.569	Food Bank	1,246,481
Subtotal Emergency Food Assistance Cluster			1,291,253
Total U.S. Department of Agriculture			\$ 4,994,452
U.S. Department of Defense			
Direct Programs:			
Base Realignment and Closure (BRAC)	12.607	RA0625-08-013-11-02	\$ 122,213
Total U. S. Department of Defense			\$ 122,213
U. S. Department of Housing and Urban Development			
Direct Programs:			
Programs of the CDBG - Entitlement Grants Cluster:			
Community Development Block Grant (CDBG)	14.218	B-09-UC-24-001	\$ 4,753,480
ARRA - CDBG Recovery Act	14.253	B-09-UY-24-0001	476,787
Subtotal CDBG - Entitlement Grants Cluster			5,230,267
Emergency Shelter Program	14.231	S-08-UC-24-0003	138,857
Emergency Shelter Program	14.231	S-09-UC-24-0003	188,928
HOME Investment Partnership	14.239	M-09-UC-24-0504	5,628,764
Balance of 06/30/2011 Outstanding Loans as of 06/30/2012	14.239		29,603,623
ARRA - Homeless Prevention and Rapid Re-Housing	14.262	S09-UY-24-0003	493,200
Subtotal Direct Programs			41,283,639
Pass Through Programs From:			
Maryland Department of Housing and Community Development			
Programs of the State Administered CDBG Cluster:			
Maryland Neighborhood Conservation Initiative	14.228	MD - NCI -1	9,563
Maryland State Department of Health and Mental Hygiene			
Housing Opportunities for Persons with AIDS	14.241	AD 658 HOP	714,977
Subtotal Pass Through Programs			724,540
Total U. S. Department of Housing and Urban Development			\$ 42,008,179
National Park Service, Department of The Interior			
Pass Through Programs From:			
Maryland Department of Planning - Historical Trust			
Design Guidelines for Montgomery County Historic Sites and Districts	15.904	24-09-21826	\$ 23,000
Total National Park Service, Department of The Interior			\$ 23,000

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
U. S. Department of Justice			
Direct Programs:			
FY09 Forensic DNA Backlog Reduction Program	16.560	2009-DN-BX-K085	\$ 43,717
FY10 Forensic DNA Backlog Reduction Program	16.560	2010-DN-BX-K070	42,500
FY11 Forensic DNA Backlog Reduction Program	16.560	-	1,126
FY10 Justice Assistance Program	16.560	2010-DJ-BX-0704	35,305
Gang Suppression/Prevention - Montgomery County	16.580	2009-D1-BX-0314	88,805
Enforcement of Protection Orders Program	16.590	2005-WE-AX-0096	189,020
Northwest/Oakview Weed and Seed	16.595	2009-WS-QX-0167	59,321
Federal Bureau of Investigation (FBI) - Joint Terrorist Force	16.595	-	8,283
COPS Universal Hiring Program	16.710	2008-UL-WX-0016	207,629
COPS Technology Program	16.710	2010-CKWX0066	105,326
Maryland Child Exploitation Task Force	16.746	-	2,704
Maryland Regional Gang Initiative Expansion	16.753	2008-DD-BX-0648	858,629
Up-County Youth Opportunity Center	16.753	2009-DI-BX-0307	61,055
Programs of the Justice Assistance Grant (JAG) Cluster:			
ARRA - FY09 Recovery Act Justice Assistance Grant Program	16.804	2009-SB-B9-0879	49,472
Work First, Train Concurrently	16.812	2010-RV-BX-0006	159,902
Subtotal Direct Programs			<u>1,912,794</u>
Pass Through Programs From:			
Governor's Office of Crime Control and Prevention			
Victims of Crime Assistance Program (VOCA)	16.575	CSA/CVA-07-022	114,541
Victims of Crime Assistance Program (VOCA)	16.575	VOCA-2010-1016	185,695
S.T.O.P. Violence Against Women Act	16.588	VAWA-2011-1912	73,668
Lethality Assessment Advocate	16.588	VAWA-2011-1611	35,954
Protective Order Enforcement	16.588	VAWA-2009-1019	32,713
Alcohol Use Prevention	16.727	EUDL-2010-1008	1,239
FY11 Paul Coverdell Forensic Sciences Improvement Grant	16.742	CFSI-2011-1202	7,040
FY11 Paul Coverdell Forensic Sciences Improvement Grant	16.746	CFSI-2011-1202	23,646
Programs of the Justice Assistance Grant (JAG) Cluster:			
Multicultural Intervention Project for Victims of Child Abuse	16.738	VOCA-2011-1253	\$ 330,152
Rape Crisis Intervention Services	16.738	RFCI-2012-1001	4,167
Courtroom Technology Enhancements	16.738	BJAG-2009-1092	36,021
Forensic Crime Scene Investigation Improvements	16.738	BJAG-2009-1019	64,995
Bi-County Gang Grant - Congressionally Selected	16.738	2010-DD-BX-0554	162,878
Financial Exploitation Prevention Initiative	16.803	-	34,380
Felony Investigator Initiative	16.803	BJRA-2009-1126	31,160
ARRA - Backlog Reduction	16.803	BJRA-2009-1086	24,870
ARRA - Crime Intelligence Analyst	16.803	BJRA-2009-1121	42,205
ARRA - FY09 Recovery Act Justice Assistance Grant Program	16.804	2009-SB-B9-0879	53,618
Subtotal Justice Assistance Grant Cluster			<u>784,446</u>
U.S. Marshall's Office			
Regional Fugitive Gang Task Force	16.595	FATF-10-0128	47,916
Subtotal Pass Through Programs			<u>1,306,858</u>
Total U. S. Department of Justice			<u>\$ 3,219,652</u>

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
U. S. Department of Labor			
Pass Through Programs From:			
State Department of Labor, Licensing and Regulation			
Programs of the Workforce Investment Act (WIA) Cluster:			
WIA - Adult Program	17.258	PO0B2400134-A	\$ 97,768
WIA - Adult Program	17.258	PO0B2400134-A	729,806
WIA - Youth Programs	17.259	PO0B2400005-B	575,104
WIA - Youth Programs	17.259	PO0B1400027-B	59,283
Summer Youth Connection	17.259	PO0B2400090	10,256
WIA - Dislocated Workers	17.278	PO0B24000134-C	849,067
WIA - Dislocated Workers	17.278	PO0B2400072-C	141,096
ARRA - Maryland Business Works	17.278	PO0B2400109-C	190,861
Rapid Response - Early Intervention	17.278	PO0B2400003	216,270
WIA Statewide	17.258/59/78	PO0B0400200	23,000
Maryland Businesses Works	17.258/59/78	PO0B8200061	24
Subtotal Workforce Investment Act Cluster			2,892,535
Programs of the Employment Service Cluster:			
Montgomery County One Stop Center	17.207	-	252,437
ARRA - State Energy Sector Training Grant	17.275	PO0B2400045	159,841
Base Realignment and Closure (BRAC)	17.277	-	35,159
Total U. S. Department of Labor			\$ 3,339,972
U. S. Department of Transportation			
Pass Through Programs From:			
Maryland (MD) State Department of Transportation			
Programs of the Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205	Bridge Design	\$ 3,227,421
ARRA - Highway Planning and Construction	20.205	Bridge Design	4,159,734
Subtotal Highway Planning and Construction Cluster			7,387,155
Programs of the Federal Transit Cluster:			
Ride-on Bus Fleet	20.500	MD-04-0005-02	\$ 2,858,537
RideSharing-Commuter Assistance Grant	20.507	MD-95-0005	34,015
ARRA - Ride-on Bus Fleet	20.507	MD-96-X001	6,550,000
Subtotal Federal Transit Cluster			9,442,552
MD State Highway Administration - MD Highway Safety Office			
Programs of the Highway Safety Cluster:			
ID Checking Calendar for Retailers and Takoma Park Cops in Shops	20.600	10-166-23	988
Total U. S. Department of Transportation			\$ 16,830,695
U. S. Department of the Treasury			
Direct Programs:			
Secret Service - Metro Area Task Force	21.000	-	\$ 10,103
Pass Through Programs From:			
State of Maryland			
Volunteer Income Tax Assistance - Maryland Cash Campaign	21.009	-	9,472
Total U. S. Department of the Treasury			\$ 19,575

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
National Foundation on the Arts and the Humanities			
Pass Through Programs From:			
Maryland State Department of Education Teen Parent and Early Childhood Literacy Pilot Program	45.310	116098	\$ 3,304
Total National Foundation on the Arts and the Humanities			\$ 3,304
U. S. Environmental Protection Agency			
Pass Through Programs From:			
Mid-Atlantic Regional Air Management Association, Inc. ARRA - Transit Bus and County Equipment Retrofit Project	66.039	2A-973793-01	\$ 12,063
Total U. S. Environmental Protection Agency			\$ 12,063
U.S Department of Energy			
Direct Programs:			
ARRA - Energy Efficiency Conservation Block Grant	81.128	DE-EE0000743	\$ 4,792,436
Pass Through Programs From:			
Maryland Department of Housing and Community Development ARRA - Weatherization Assistance Grant	81.042	-	2,808,295
Total U. S. Department of Energy			\$ 7,600,731
U. S. Department of Education			
Pass Through Programs From:			
Maryland State Department of Education			
Programs of the Special Education Cluster:			
Infants and Families with Disabilities	84.027	104376-02	\$ 440,650
Infants and Families with Disabilities	84.173	104376-03	9,000
Subtotal Special Education Cluster			449,650
Programs of the Vocational Rehabilitation Cluster:			
Summer Youth	84.126	-	30,008
Programs of the Early Intervention Services (IDEA) Cluster:			
Infants and Families with Disabilities	84.181	900485-05	\$ 175,097
Infants and Families with Disabilities	84.181	104376-01	1,010,621
Infants and Families with Disabilities	84.181	104376-01	83,884
ARRA - Infants and Families with Disabilities	84.393	104516	1,309,819
Subtotal Early Intervention Services (IDEA) Cluster			2,579,421
Total U. S. Department of Education			\$ 3,059,079

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
U. S. Department of Health and Human Services			
Direct Programs:			
Preparedness and Emergency Response Learning Center	93.069	-	\$ 20,833
Adult Drug Court Capacity Expand Initiative	93.243	1H79TI020002-01	116,971
Programs of the Head Start Cluster:			
Head Start	93.600	03CH2109/44	4,528,423
Community Based Services Delivery & Outreach	93.647	90PO371/01	97,300
Subtotal Direct Programs			4,763,527
Pass Through Programs From:			
Maryland State Office on Aging			
Special Programs for the Aging - Ombudsman Services	93.042	AAA-3-24-015	61,774
Title III, Part D - Supportive Services and Senior Centers	93.043	AAA-3-24-015	31,041
National Family Care Giver Support	93.052	AAA-3-24-015	305,299
Money Follows the Person - Education and Application	93.052	-	3,475
Programs of the Aging Cluster:			
Title III, Part B - Supportive Services and Senior Centers	93.044	AAA-3-24-015	\$ 784,050
Title III, Part C - Nutrition Services	93.045	AAA-3-24-015	1,137,624
Medicare Improvements to Patients	93.053	-	71,916
Senior Nutrition	93.053	-	228,485
Subtotal Aging Cluster			2,222,075
Maryland State Department of Education			
Programs of the Child Care and Development Block Cluster:			
Early Head Start State Supplemental Funds	93.575	104908-01	223,963
Subtotal Child Care and Development Block Cluster			
National Association of County and City Health Officials			
Centers for Disease Control and Prevention (CDCP)			
CDCP - Investigations and Technical Assistance	93.283	2008-100104	130,823
CDCP - Investigations and Technical Assistance	93.283	2010-092004	190,299
Maryland State Department of Human Resources			
Family Preservation	93.556	Maryland House Bill 669	109,315
Title IV-B PSSF Caseworker Visits	93.556	Maryland House Bill 669	14,832
Programs of the Temporary Assistance for Needy Families Cluster:			
Temporary Assistance for Needy Families	93.558	Maryland House Bill 669	4,589,699
Title IV-D - Child Support	93.563	Maryland House Bill 669	493,614
Child Support Enforcement	93.564	-	602,654
Refugees - (Cash, Medical and Administrative)	93.566	Maryland House Bill 669	208,796
Low Income Home Energy Assistance	93.568	Maryland House Bill 669	770,588
Programs of the Child Care and Development Block Cluster:			
Child Care Mandatory and Matching Funds of the CCDF	93.575	Maryland House Bill 669	\$ 944,420
Child Care and Development Fund (CCDF)	93.596	Maryland House Bill 669	58,220
Subtotal Child Care and Development Block Cluster			1,002,640
Family Kinship Connection	93.605	Maryland House Bill 669	56,649
Title IV-B Child Welfare Services	93.645	Maryland House Bill 669	126,047
Foster Care Title IV-E Administration	93.658	Maryland House Bill 669	1,742,571
Foster Care Title IV-E	93.658	Maryland House Bill 669	16,648
Title IV-E - Adoption	93.659	Maryland House Bill 669	53,487
Title XX - Social Services Block Grant	93.667	Maryland House Bill 669	2,054,171

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
U. S. Department of Health and Human Services (Concluded)			
Pass Through Programs From:			
Maryland State Department of Human Resources			
Child Abuse and Neglect	93.669	Maryland House Bill 669	\$ 1,222
Domestic Violence Program	93.671	OGM/DV-09-003	180,821
Senior Health Insurance Counseling	93.779	-	63,278
Programs of the Medicaid Cluster:			
Title XIX - Certification	93.778	Maryland House Bill 669	\$ 3,622,453
Title XIX - Health Related Services	93.778	Maryland House Bill 669	269,436
Subtotal Medicaid Cluster			3,891,889
Maryland State Department of Housing and Community Development			
Programs of the Community Services Block Grants (CSBG) Cluster:			
Community Services Block Grant	93.569	DCA/OCA-10-03-013	\$ 141,129
Community Services Block Grant	93.569	DCA/OCA-10-03-013	334,984
Subtotal Community Services Block Grants (CSBG) Cluster			476,113
Georgetown University			
Microbiology Infectious Disease Research - HIV Positive Women	93.855	RX 4335-023 MC	117,637
Prince George's County			
HIV Emergency Relief	93.914	C-0964-07	415,794
HIV Emergency Relief	93.914	C-1263-05	1,238,623
Maryland State Department of Health and Mental Hygiene			
Centers for Disease Control and Prevention (CDCP)			
Emergency Preparedness	93.069	CH 822 PHP	756,438
Tuberculosis Control	93.116	CH 015 TBF	253,262
Transition from Homelessness	93.150	MH 170 OTH	115,588
Reproductive Health/Family Planning	93.217	FH 554 FPG	153,567
Strategic Prevention Framework	93.243	MU 242 SPF	16,025
Programs of the Immunization Cluster:			
Immunization Grants	93.268	CH 354 IMM	254,131
Breast and Cervical Cancer - Early Detection	93.283	FH 438 CBC	675,141
Refugee Health	93.566	CH 421 REF	323,261
State Children Insurance Program	93.767	MA 286 ACM	342,488
Programs of the Medicaid Cluster:			
Medical Assistance - Medicaid Transport	93.778	MA 366 GTS	\$ 1,148,586
Service Coordination	93.778	MR 006 MRC	1,389,298
Pregnant Women and Children Eligibility	93.778	MA 286 ACM	511,407
Medical Assistance - Administrative Care Coordination	93.778	MA 020 EPS	352,500
Medical Assistance Program	93.778	-	3,046,157
Subtotal Medicaid Cluster			6,447,948
HIV Care Formula	93.917	AD 486 RWS	975,031
HIV Prevention - Partner Services	93.940	AD 632 HPS	44,278
HIV Prevention	93.940	AD 348 PRV	470,898
HIV Prevention	93.944	AD 348 PRV	1,500
Community Mental Health Services	93.958	MH 234 OTH	568,565
Substance Abuse Prevention and Treatment	93.959	MU 525 ADP	256,827
Substance Abuse Prevention and Treatment	93.959	AS 241 FED	898,164
Child Health Services	93.994	-	586,793
Children with Special Needs	93.994	CH 501 CSN	71,207
Subtotal Pass Through Programs			34,606,949
Total U. S. Department of Health and Human Services			\$ 39,370,476

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
Corporation for National and Community Service			
Direct Programs:			
Retired and Senior Volunteer Program	94.002	09 SRAMD 003	\$ 67,545
Pass Through Programs From:			
Governor's Office on Service and Volunteerism			
Maryland Volunteer Generation Fund	94.021	VGF 2011	30,705
Total Corporation for National and Community Service			\$ 98,250
U. S. Department of Homeland Security			
Direct Programs:			
National Urban Search and Rescue Response System	97.025	EMW-2008-CA-0484	\$ 1,273,435
National Urban Search and Rescue Response System	97.025	2009-SR24-K015	6,530
National Urban Search and Rescue Response System	97.025	2010-SR24-J053	524,886
Staffing for Adequate Fire and Emergency Response	97.044	EMW-2006-FF-03999	75,983
Assistant to Fire Fighters Grant	97.044	-	406
Safer Grant	97.044	EMW-2006-FF-03999	242,740
2010 Citizen Corps Program	97.053	-	1,933
2009 Buffer Zone Protection Program	97.078	200--BF-T9-0038	345,240
Subtotal Direct Programs			2,471,153
Pass Through Programs From:			
District of Columbia - Homeland Security and			
Emergency Management Agency			
National Capital Area Region (NCR)			
Urban Area Security Initiative (UASI)			
Law Enforcement Information Exchange (LINX)			
Metropolitan Medical Response System (MMRS)			
District of Columbia's Homeland Security and Emergency			
Management Agency (DCHLSMS)			
FY09 UASI NCR Radio Cache Maintenance	97.067	09UASI536-02	123,053
FY11 UASI Multiple Tactical Respiratory Exercises	97.067	9UASI541-01	8,822
UASI Awards Grant	97.067	2009-SS-T9-0080	194,100
FY10 UASI Exercise and Training Continuation	97.067	10UASI535-01	64,730
FY09 UASI-Information Data Sharing	97.067	08UASI536-01	26,607
FY10 UASI-LINX Capability Upgrades	97.067	9UASI536-03	801,643
UASI Information - Data Sharing	97.067	9UASI536-02	608,142
UASI Information - Data Sharing	97.067	9UASI536-01	175,901
FY10 LINX Maintenance	97.067	10UASI536-01	229,026
FY10 UASI-LINX Handheld Solutions (Phase II)	97.067	10UASI536-02	550,688
FY08 Hospital Critical Care Surge	97.067	08UASI535-01	137,751
FY10 UASI Emergency Planning Grant	97.067	09UASI535-03	582,406
FY09 MMRS Coordinator	97.067	09UASI535-02	6,454
FFY10 UASI MMRS Continuation	97.067	10UASI535-02	27,945
UASI Explosive Breaching Training	97.067	09UASI535-04	2,739
UASI 2009 5% - Implementation Project	97.067	09UASI535-05	814,162
UASI - Tactical Team Enhancements	97.067	10UASI536-03	152,753
FY10 Volunteer and Citizen Corps Program	97.067	10UASI535-03	78,440
FY10 UASI 5% - Homeland Security Support	97.067	10UASI535-04	76,210
FY08 UASI Burn Baseline Capacity Grant	97.067	08UASI535-04	750

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
U. S. Department of Homeland Security (Concluded)			
Pass Through Programs From:			
District of Columbia - Homeland Security and Emergency Management Agency			
FY08 UASI Emergency Management System			
Basic Life Support Restock Supplies	97.067	08UASI541-07	\$ 714
FY10 UASI Technology Rescue Task Force Project	97.067	10UASI541-04	5,386
FY08 UASI MMRS Grant	97.067	08UASI541-04	170,906
FY10 UASI Medical Ambulance Enhancement	97.067	10UASI541-03	125
FY11 UASI Tactical Team Enhancements	97.067	11UASI536-02	1,791,561
UASI Police In-Car Video, Portable Records Scanning and Backup Power Generator Project	97.067	09UASI535-06	729,412
FY11 UASI Regional Planning Grant	97.067	11UASI535-05	31,694
FY10 UASI Training via DCHLSMS	97.067	3BUAO	46,338
FY10 UASI Radio Cache Maintenance	97.067	10UASI541-01	5,930
Depot Security - Transit Grant	97.075	Subgrant # 6TGO3	629,860
Bus Security Cameras	97.075	Subgrant # 6TGO3	5,474
Maryland Emergency Management Agency			
State Homeland Security Grant Program	97.067	2007-GE-T7-0040	1,025,719
2009 Citizen Corps Program	97.067	2009-SS-T9-0080	4,424
Active Shooter Exercise	97.067	8UASI536-03	7,818
Emergency Management Preparedness	97.042	2007-EM-E7-0104	381,992
FY08 State Homeland Security Grant	97.073	2008-GE-T8-0011	563,036
Subtotal Pass Through Programs			<u>10,062,711</u>
Total U.S. Department of Homeland Security			<u>\$ 12,533,864</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 133,235,505</u>

The accompanying notes are an integral part of this Schedule.

Montgomery County, Maryland

Notes to the Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the primary government of Montgomery County, Maryland (the County) and is presented on the modified accrual basis of accounting. Federal awards of component units of the County reporting entity are not included in this Schedule.

The information in this Schedule is also presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Expenditures of federal award grant funds are made for the purposes specified by the grantor, and are subject to certain restrictions. Expenditures are also subject to audit by the relevant federal agency. In the opinion of management, disallowed costs, if any, from such audits will not have a material effect on this Schedule or the financial position of the County.

2. Subrecipients

Of the expenditures presented in the Schedule, the County provided awards to subrecipients as follows:

Program Title	Federal CFDA Number	Subrecipient Name	Amounts Provide to Subrecipients
Head Start	93.600	Montgomery County Public Schools	\$ 3,379,918
Head Start	93.600	Montgomery County Public Schools	53,488
Infants and Toddlers (I & T)	84.027	Montgomery County Public Schools	218,325
Infants and Toddlers (I & T)	84.181	Montgomery County Public Schools	101,708
ARRA - (I & T)	84.393	Montgomery County Public Schools	37,279
ARRA - (I & T)	84.393	Montgomery County Public Schools	191,343
Energy Efficiency and Conservation Block Grant (EECBG)			
EECBG	81.128	Montgomery County Public Schools	1,295,003
EECBG	81.128	Montgomery College	148,969
EECBG	81.128	Housing Opportunity Commission	193,568
EECBG	81.128	Maryland-National Capital Park and Planning Commission	33,797
Community Development Block Grant (CDBG)			
CDBG	14.218	City of Rockville	738,913
CDBG	14.218	City of Takoma Park	51,724
Workforce Investment Act (WIA)			
Adult Program	17.258	Workforce Solutions Group of Montgomery County, Inc. (WSGMC)	614,455
Youth Activities	17.259	Latin American Youth Center	520,143
Youth Summer Program	17.259	Transcen, Inc.	210,045

Montgomery County, Maryland

Notes to the Schedule of Expenditures of Federal Awards

Program Title	Federal CFDA Number	Subrecipient Name	Amounts Provided to Subrecipients
ARRA - On the Job Training	17.260	WSGMC	190,861
ARRA-State Energy	17.275	WSGMC	159,841
Base Closing (BRAC)	17.277	WSGMC	35,159
Dislocated Workers	17.278	Transcen, Inc.	10,758
Early Intervention	17.278	WSGMC	216,270
Dislocated Workers	17.278	WSGMC	796,707
ARRA-EECBG	81.128	WSGMC	115,867

3. Loan Programs with Continuing Compliance Requirements

The County participates in the Home Investment Partnership Act federal loan program. The balance of loans from previous years and current year loan activity, as required under OMB Circular A-133, are presented in the Schedule.

Montgomery County, Maryland
Schedule of Findings and Questioned Costs

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? X Yes None reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? X Yes No

Type of auditors' report issued on compliance for major programs:

Unqualified for all major programs except for the Medical Assistance Program Cluster, which was qualified.

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133?

 X Yes No

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

93.558	Temporary Assistance for Needy Families
93.575, 93.596	Child Care and Development Fund Cluster
93.667	Social Services Block Grant
93.778	Medical Assistance Program Cluster
93.914	HIV Emergency Relief Project Grants
14.239	Home Investment Partnerships Program
97.025	National Urban Search and Rescue Response System
20.205	ARRA - Highway Planning and Construction Cluster
20.205	Highway Planning and Construction Cluster
20.507	ARRA - Federal Transit Cluster

Montgomery County, Maryland
Schedule of Findings and Questioned Costs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.507	Federal Transit Cluster
81.042	ARRA - Weatherization Assistance for Low-Income Persons
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program

Dollar threshold used to distinguish
between Type A and Type B programs: \$3,000,000

Auditee qualified as low-risk auditee? _____ Yes X No

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Section II - Financial Statement Findings

Finding 2012-1: Changes in the Control Environment due to Systems Conversion

In an effort to provide integrated management decision-making information including financial and operational activities, the County converted financial reporting systems during fiscal year 2011.

Subsequently, during fiscal year 2012, we noted variations of user satisfaction and user knowledge with the new system and programming work, along with a magnitude of required post-implementation corrections. Due to this variation in user knowledge, there was a direct impact on user ability to generate the required reports from the new system to facilitate the audit process. We recommend that all concerned parties (including operations and user personnel) and particularly, the controller's group continue to participate in training in the use of the new software's reporting functions. This will help ensure that producing internal financial reports and other required schedules for various business processes becomes a standard and relatively simple procedure.

Further, during fiscal year 2012, there were a number of users that were assigned system administrator authority or privileges (i.e. Administrator, Security Administrator, Domain Administrator, Super User, etc.) on the Windows and Linux environments and on the Oracle and PeopleSoft applications. We noted the following during our procedures:

- A number of users have the ability to migrate Oracle Financials application changes within the production environment.
- Three (3) Data Base Administrators and the Enterprise Services and Operations Technology Expert have been granted administrative access or full access rights to one or more of the following: the Windows Domain, Linux environment, and Oracle Financials application. In addition, the Enterprise Services and Operations Technology Expert also has the ability to modify the production job schedules.
- The Accounts Payable Manager has been granted administrative system access for a limited amount of time to the Oracle Financials application creating a segregation of duties risk.
- The Systems Control Manager, who is responsible for assigning user access, has been granted administrative access rights to the PeopleSoft and Oracle applications, creating a segregation of duties risk.

This presents an increased and heightened risk for unauthorized or inappropriate access to data and information that could have a significant impact on the financial reporting process. To maintain the desirable separation of duties, we recommend that management should review and evaluate who should be assigned system administrator authority on the Windows and Linux environments and on the Oracle and PeopleSoft applications. These access rights should be limited and only be granted to those key users who require these privileges within their functional area of authority. Lastly, management's review should be documented and retained.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Management's Response:

As with any new large complex enterprise-wide system implementation and business process reengineering effort, there are significant change management and learning curve aspects that impact all levels of users. There is also a period of time where post-implementation issues will arise that must be resolved, and where reevaluation of business process opportunities, to maximize system capabilities, will continue. The County is in the process of these efforts. As part of this process, ERP team and business process owners work together to identify issues, underlying causes, and opportunities for improvement, and to prioritize resources assigned to such efforts. Training programs have been updated and are made available to impacted County employees. Significant resources and expertise are also dedicated to continued development of reporting tools and reporting dashboards.

As it relates to specific issues noted above:

- The County has reviewed the system administrator accounts and has removed Oracle Financial application administrator privileges from the Expert since the business need is not required moving forward. The County is in the process of developing additional controls to monitor for and prevent unauthorized access that could compromise operations or financial reporting.
- Given that the County server architecture is highly virtualized and supported by a large matrix team, the County has a business requirement to provide sufficient coverage for scheduled maintenance, including monthly patching, as well as the ability to respond to system issues quickly. The County is evaluating the continuing business and operations requirements and the administrator privilege assignments in order to identify potential changes to reduce potential risks balanced with business operations and support.
- The Accounts Payable Manager (ERP subject matter expert) was provided administrative system access to the Oracle Financials application for four days, after go-live when the implementer is restricted from access to the production environment for internal control purposes, to set up a new functionality. With the implementation of the Change Control Process, administrative system access will require formal review and approval through a change request.
- The Systems Control Manager is responsible for managing all user access for the Enterprise Service systems (PeopleSoft, Oracle, Hyperion, OBIEE reporting tool). All changes to PeopleSoft require a Change Request, testing, and approval from the business owner. The County will review and evaluate PeopleSoft roles and responsibilities to determine the feasibility of limiting specific responsibilities.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Finding 2012-2: Reconciliations of Cash Accounts

During much of the year, various bank account reconciliations appeared to be generally incomplete. For instance, the July 31, 2011 bank reconciliation was not completed until August 2012 and upon reconciliation, significant adjustments and unreconciled items were discovered which resulted in a substantial adjustment to the County's general ledger cash balance.

Cash is the most liquid of assets and has the highest risk for theft, embezzlement, and misappropriation. Not reconciling such accounts on a periodic basis means that errors or other problems might not be recognized and resolved on a timely basis. Further, unreconciled differences that appear immaterial can obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent.

Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements. As such, we recommend that management review its current procedures and make necessary changes to ensure that bank reconciliations are prepared on a periodic basis. A further benefit of regular reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

Management's Response:

The County concurs with this finding. However, although various FY12 bank account reconciliations were not completed in a timely manner, the reconciliations were completed in significantly less time than in FY11 due to improvements implemented in FY12. FY11 was the first full year utilizing the County's new ERP system and cash management capabilities, including related reengineered business processes. Management continues to work in conjunction with the ERP Office to develop and implement solutions to the issues which have been preventing the County from completing monthly bank reconciliations in a timely manner.

Improvements being implemented in FY13 include, but are not limited to:

- Developing interfaces into the Oracle Accounts Receivable module (A/R) to eliminate or reduce manual efforts and streamline reconciliation processes, and to improve internal controls, in the following areas:
 - For four key departments, to allow recording through A/R instead of directly through the General Ledger, thus enabling effective use of the Cash Management module (CM) matching capabilities;
 - Automated matching of one-to-one receipts; and
 - Enhancing matching of single cash receipts to multiple-revenue-line invoices.
- Continuing to identify and establish separate bank accounts for large and high volume revenue streams in order to facilitate the reconciliation process;
- Incorporating the unique reference number generated by the bank into the daily bank interface file to use as a key matching field for electronic funds transfers in CM;
- Enhancing the use of automated software tools throughout more of the reconciliation processes; and
- Continuing outreach to departments to develop solutions to business process related issues that prevent timely reconciliation.

Montgomery County, Maryland
Schedule of Findings and Questioned Costs

Finding 2012-3: Reconciliations of Accounts Payable

During much of the year, the accounts payable detail had not been reconciled to the general ledger balance. The lack of this control feature allows for differences to occur and accumulate over a period of time. Ultimately, the determination of the actual payables balance is virtually impossible without a significant time investment in a lengthy reconciliation process.

To maintain proper control over accounts payable, a reconciliation of accounts payable from the general ledger to the outstanding accounts payable register should be prepared to determine that all additions to, and payments of, accounts payable are correctly recorded and to determine whether there are any disputed items. If any differences exist, they should be investigated and resolved promptly.

We recommend that management review its current procedures and make necessary changes to ensure that accounts payable reconciliations are prepared on a periodic basis to ensure that the general ledger balance reflects the proper accounts payable amount as supported by the subsidiary system.

Management's Response:

The County concurs that the accounts payable detail should be reconciled to the general ledger. The County reconciles the accounts payable detail on an enterprise-wide basis to the general ledger monthly. However, the County does not reconcile the accounts payable detail by fund until year-end. The County is currently working on configuration changes to the ERP as well as changes to the associated business processes to allow for the efficient monthly reconciliation of accounts payable by fund to the general ledger.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Finding 2012-4: Accuracy and Completeness of the Schedule of Expenditures of Federal Awards (SEFA)

The County receives grant and contract funds from various funding agencies. These situations necessitate a strong accounting system to record specific grant and contract activities. We noted the following during our procedures:

- The County was not able to produce an accurate SEFA in a timely manner. The SEFA had significant errors pertaining to the Catalog of Federal Domestic Assistance (CFDA) references. The CFDA serves as the basic reference source of Federal programs and facilitates coordination and communication between the Federal government and State and local governments. It appears that adequate information was not available from all State and/or Federal granting agencies in a timely manner to produce the preliminary SEFA with the proper classification of CFDA references. Hence, various CFDA references and related expenditures were misclassified. This resulted in erroneous reporting and delays in the overall audit process and necessitated additional test work.
- Our audit procedures also disclosed that automated controls are not in place to capture Federal expenditures incurred under capital projects which enhances the risk that a department project manager may not be fully aware of Federal reporting requirements and thereby, the County may fail to fully report Federal expenditures incurred under capital projects.
- In addition, while performing final due diligence, management discovered that intergovernmental revenues amounting to \$1.8 million were inadvertently misclassified and consequently the related federal expenditures had not been included in the SEFA. This adjustment was provided late in the audit process, resulting in additional analysis and delays in order to ensure accuracy of the SEFA and confirmation that there was adequate coverage of federal expenditures.

The accounting system should facilitate the reporting requirements of each contract and grant. We recommend that management consider establishing respective fields within the accounting system to include the input of a CFDA reference at the start of a grant program. Management should also re-emphasize the importance of such information to employees handling grants and contracts to avoid the recurrence of such errors and misclassifications. This communication involves not only making sure that appropriate employees are aware of established policies and procedures but also for providing the necessary training to ensure they understand how to interpret and execute them.

Management's Response:

The County concurs with this finding. The County has a strong manual process in place to compile accurate information needed for the SEFA. This process includes obtaining written communication from granting agencies on CFDA numbers and capital project program reporting and administrative requirements. For the FY12 SEFA, this manual process was significantly delayed and abbreviated as a result of the delayed issuance of the FY11 financial statements. Nevertheless, the County is exploring ways to automate parts of the process such as including a specific field in the ERP system for CFDA numbers.

Montgomery County, Maryland
Schedule of Findings and Questioned Costs

Finding 2012-5: Employee Retirement Plans

During our procedures over the Employees' Retirement System, the Retirement Savings Plan, and the Deferred Compensation Plan, we noted that contributions to the respective plans had not been reconciled to the County's payroll records in a timely manner during the year. As such, problems were encountered in the year-end closing and audit process, which resulted in delays in the delivery of the final report. We recommend that proper account analysis be performed on a current and timely basis.

Management's Response:

The County concurs with the finding. However, reconciliations between vendors and County systems were prepared shortly after year-end for the FY12 audit, and all amounts remitted to the Retirement Plans were verified to payroll records for each pay period.

The Department of Finance, in conjunction with the staff from the ERP team, Office of Human Resources, and the Montgomery County Employee Retirement Plans will continue to work diligently to revise this business process, so that retirement contributions are being reconciled to the general ledger and third party vendors on a timelier basis for FY13.

Montgomery County, Maryland
Schedule of Findings and Questioned Costs

Finding 2012-6: Journal Entry Approval

During our sample test work over journal entries, we noted that 1 out of 14 items selected lacked proper approval by a responsible employee. This presents an increased and heightened risk for unauthorized or incorrect journal entries.

We recommend the enforcement of existing policies whereby all journal entries are approved by the controller or other designated member of management. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals. Management may consider spot checks and formal investigation of any instances of lack of approval and implement any preventive steps to avoid such occurrences.

Management's Response:

Management concurs that all journal entries must be properly approved prior to posting. The entry in question was a routine reversal of a properly reviewed and approved FY11 year-end entry that was done for reporting purposes. The reversing entry was reviewed and posted by an employee other than the one who prepared it, as required by the existing Finance Department procedure for journal entry approval and posting. However, the posting employee failed to sign the journal entry cover sheet and supporting documentation as required by existing procedures. Finance has sent correspondence to all staff in the Controller's Office reminding them of the existing journal entry approval and posting procedure.

The County is also exploring the possibility of implementing Oracle workflow for its journal entry and approval process in FY14, thus eliminating the need for manual approvals.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Finding 2012-7: Logon Accounts and Change Control Management

We noted the following during our procedures:

- Logon Accounts - When users are given access to the system, a user logon account is created for them that contains descriptive information about the user and about the user's access privileges. Good security practices include modifying these accounts when users change departments, job responsibilities or roles, and deleting the accounts if employees leave. Good practices also include reviewing or re-certifying the logon user accounts periodically to ensure that established security practices are functioning as intended. Due to the lack of a periodic review process, a terminated outside consultant/contractor had not been removed/disabled of their respective administrator access rights to the Oracle Financials application.

We recommend the County should consider developing and implementing procedures to ensure that user accounts for logon to all systems (e.g., network, Linux, Oracle, PeopleSoft, etc.) do not contain accounts for inactive employees, that there are no duplicate accounts, and that existing accounts allow employees access to only what they require for their job responsibilities or roles.

- Change Control - There are no formally approved written policies and procedures to provide proper guidance and oversight for requesting changes to existing computer applications. We noted the following:
 - For an Oracle Financials application change request, at the time of our review, there was no formal approval documented within the SharePoint change ticket.
 - For a PeopleSoft change request, there was no appropriate documentation maintained to demonstrate the user acceptance testing that had been performed. In addition, it was noted at the time of our review, that the program change was implemented into the production environment without the appropriate levels of approval.

As a result, system support activities are being performed and implemented without documented management approval. A formal change control methodology should be reviewed and enforced to ensure requested system modifications are documented and reviewed, appropriate approvals are received, and changes are tested by the requesting party prior to migration into the production environment.

Inappropriate system modifications to applications can cause incorrect calculations and compromise functionality.

Management's Response:

Logon Accounts - The County is developing an Identity Management System intended to eventually include workflow approvals, user roles approval and provisioning, and auditing. Given that the full implementation will take some time, the County is evaluating near term improvements to network and application account provisioning and control. The County is also reviewing the existing periodic reviews of accounts to determine if frequency needs to be increased and documentation of results can be improved.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Change Control - During ERP implementation, the County used the implementers (Ciber's) "Workspace" application to document changes. The County converted from Workspace to the County's Change Control Process housed in SharePoint in September 2012. The ERP team has a formal review and approval process of all change requests, approvals, configuration, modifications, and testing. This is being tracked centrally in SharePoint. Written procedures and policies are being developed and should be complete by April 2013.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Finding 2012-8: Access to Applications

During our test work, we noted there was no formal notification/documentation to add or remove an employee's user profile (i.e. USERID) from the network and application systems as follows:

- Documentation was not maintained for an employee who was granted access to the Windows Active Directory.
- Documentation was not maintained for a terminated employee who was removed/disabled from the Windows Active Directory and for an outside consultant/contractor who was not removed/disabled from the Oracle Financials application, when he should have been.
- Approval documentation was not maintained for a newly hired employee who was granted "Pension Generalist" access privilege to the PeopleSoft application.

Without proper documentation, management is not assured that its policies and procedures are being properly carried out. Further, without a base against which the user accounts can be compared, it is difficult to analyze the completeness and accuracy of the user accounts. As such, we recommend the County should consider developing a formal procedure for establishing, approving, or removing user account profiles on the network and the application systems. The policies and procedures should clearly document the type of requests received and made by users, employee user identification, date requested for any additions, modifications, or deletions of user accounts, and any other special requirements.

Management's Response:

The County is developing an Identity Management System intended to eventually include workflow approvals, user roles approval and provisioning, and auditing. Given that the full implementation will take some time, the County is evaluating near term improvements to network and application account provisioning and control. The County is also reviewing the existing periodic reviews of accounts to determine if frequency needs to be increased and documentation of results can be improved.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Finding 2012-9: Review of Potential Security Violations

Various system events can indicate a potential security violation or it can indicate the need for security related training for individuals or departments. We noted the County does not review potential security violations over the ERP infrastructure and applications (i.e. operating system, application, data base). Consequently, there is a risk that potential security violations are occurring, unintentionally or intentionally, which exposes the County's information systems and assets.

We recommend the County should consider establishing procedures to review and investigate potential security violations within the ERP infrastructure and applications. The procedures should start with proper systems security facilities being set up to record specified Linux event/history logs that could be considered potential security risks (e.g. violating password security by exceeding a specified number of incorrect USERID's or passwords). The system should record these activities in system logs or audit logs as they occur.

At a specified time interval (at least monthly), a designated individual should review these logs that are generated and summarize the activities of these logs, and identify areas of concern, which should be brought to management's attention. Further, management's review should be documented and retained.

Management's Response:

The County is planning to expand its use of the existing log correlation system currently used for Windows Active Directory (AD) and network environments to the ERP Linux environment including server OS and databases to strengthen internal controls, better identify potential security violations, and take appropriate actions as needed.

Montgomery County, Maryland
Schedule of Findings and Questioned Costs

Section III - Federal Award Findings and Questioned Costs

Finding 2012-10: Cash Management

Information on Federal Program(s) - ARRA - Energy Efficiency and Conservation Block
Grant Program
CFDA Number: 81.128
Grant Award Number: DE/EE0000743/002
Grant Award Period: November 9, 2009 to November 8, 2012

Criteria or Specific Requirement - OMB Circular A-133 Subpart C Section .300 (b) states, "The auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Condition - We reviewed 3 of 7 drawdowns made during the year totaling \$2.1 million and noted that in 1 instance, the drawdown request had been prepared and approved by the same personnel.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of the County's compliance with specified requirements.

Effect - There is increased risk that errors or misappropriation could occur and go undetected.

Cause - Policies and procedures were not appropriately adhered to.

Recommendation - We recommend the County re-evaluate its existing policies and procedures and strengthen processes surrounding its grants management drawdown cycle.

Views of Responsible Officials and Planned Corrective Actions - We agree with this finding and recommendation. We will review our internal controls over requests for grant funds to ensure that in the future the established separation of duties of this process is followed for each and all requests.

Montgomery County, Maryland
Schedule of Findings and Questioned Costs

Finding 2012-11: Davis-Bacon Act

Information on Federal Program(s) - Highway Planning and Construction Cluster
(Federal-Aid Highway Program)
CFDA Number: 20.205
Grant Award Number: M0074
Grant Award Period: July 1, 2011 to June 30, 2012

Criteria or Specific Requirement - All laborers and mechanics employed by a contractor or subcontractor to work on construction contracts in excess of \$2,000 and financed by federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL). This includes a requirement for a contractor or subcontractor to submit to a non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).

Condition - For 7 out of 15 payroll reports selected for testing from 2 construction contracts, we observed that while the reports had been certified weekly, they had not been submitted to the County on a weekly basis as required. While Contracts Compliance and Monitoring, Inc. (CCMI), the specialized firm hired by the County to monitor compliance with the Davis-Bacon Act, sent letters to the firms requesting the reports, the firms did not submit them.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of the County's compliance with specified requirements.

Effect - The County is not in compliance with federal program requirements for timely submission and review of supporting documentation (i.e. certified payrolls) as outlined in the grant agreements and the OMB Circular A-133 compliance requirements. There is a potential that contractors or subcontractors could have paid their employees less than the prevailing wage rates established by the DOL.

Cause - The County did not strictly implement the terms of the construction contracts and Davis-Bacon Act requirements when monitoring its contractors or subcontractors.

Recommendation - The County should ensure that responsible project management personnel obtain and review, on a timely basis, the required certified payroll reports for each week in which a contractor or subcontractor's work is performed.

Views of Responsible Officials and Planned Corrective Actions - We agree with this finding and recommendation. The County has a strong monitoring process in place. The County uses a third-party vendor, Contract Compliance and Monitoring, Inc. (CCMI), to monitor Davis-Bacon Act compliance. As part of its monitoring functions, CCMI submitted a detailed monthly audit report to the prime contractors that were part of the test listing the non-compliance instances observed. In spite of CCMI's communication with the contractors, they failed to comply with submitting timely the subject certified payrolls. We concur that in these instances, the tested contractors did not initially submit the certified payroll by the required timeframe.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

We believe that the County exhibited in good faith effort, under the current Prevailing Wage Law, to enforce the Davis-Bacon Act requirements to ensure that we will ultimately receive all payroll records and the proper rates are paid to the employees. The County plans to identify enforcement actions it can take in a timely manner within the scope of the law against vendors to ensure future compliance.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Finding 2012-12: Eligibility

Information on Federal Program(s) - Medical Assistance Program Cluster
CFDA Number: 93.778
Grant Award Number: Maryland House Bill 669
Grant Award Period: July 1, 2011 to June 30, 2012

Criteria or Specific Requirement - OMB Circular A-133 Subpart C Section .300 (b) states, "The auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Condition - The County's Department of Health and Human Services (HHS) is responsible for determining eligibility of participants in the Medical Assistance (MA) Program. We noted the following during our review of 65 participants which had been selected for testing:

- 2 participant files did not have signed application forms.
- 1 participant file did not have the correct application information.
- 5 participant files could not be located during our testing.

Without HHS maintaining the proper documentation in the case files, we were unable to verify whether certain participants were properly enrolled in the MA program.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of HHS' compliance with specified requirements.

Effect - Lack of supporting documentation for program services and noncompliance with program requirements could result in disallowances of costs and participants could be receiving benefits that they are not entitled to receive under the program.

Cause - Policies and procedures were not appropriately adhered to in the aforementioned instances to ensure that supporting documentation was maintained to evidence that proper eligibility determination had been conducted.

Recommendation - We recommend that HHS improve internal control procedures to ensure that documentation is maintained to support eligibility decisions and that files are properly secured. Personnel receiving the applications and supervisors reviewing the eligibility determination should ensure that application forms are completely filled out and correct information is maintained in the file.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Views of Responsible Officials and Planned Corrective Actions - We agree with this finding and concur with the recommendation but want to offer up additional explanation. The County has over 65,000 active cases of Medical Assistance including community Medicaid, Long term care Medicaid, MCHIP, etc. The sample and the related missing files are a relatively small subset of the total volume of cases. The County has a structured process for determining eligibility. The Cognizant system, CARES, included narration on the subject applicants that could only come from case files including applications. Therefore, even though 5 hard copy files were not immediately available the information in CARES backs up the hard copy file and provides an additional level of support. The information requested appeared to have been misfiled and could not be presented during the time of the audit. It should be noted that the workload volume in this program has increased over 116% in the last five years with no additional resources. Although procedures were in place to prevent misfiled records, the possibility for this to occur had increased simply due to workload pressures and staffing shortages.

In order to mitigate the risk, a new policy will be implemented that will require a complete case record (including original application) as part of Supervisory or peer pre-reviews (PIRAMID) as well as an end-of-day check by managers to ensure proper filing. We are also expanding the number of personnel dedicated to case record management and filing, and implementing soon an electronic case management system with scanning capabilities, with a projected implementation schedule for May 2013.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Finding 2012-13: Eligibility

Information on Federal Program(s) - Temporary Assistance for Needy Families
CFDA Number: 93.558
Grant Award Number: Maryland House Bill 669
Grant Award Period: July 1, 2011 to June 30, 2012

Criteria or Specific Requirement - OMB Circular A-133 Subpart C Section .300 (b) states, "The auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Condition - The County's Department of Health and Human Services (HHS) is responsible for determining eligibility of participants in the Temporary Assistance for Needy Families (TANF) program. We noted the following during our review of 41 participants which had been selected for testing:

- 1 participant file did not have income verification support available in the file.
- 1 participant file did not have the Maryland Automated Benefits System (MABS) income determination information. Further, the participant had failed to comply with the job search requirement and no evidence was available that income had been verified.
- 1 participant file did not have a signed application form.

Without HHS maintaining the proper documentation in the case files, we were unable to verify whether certain participants were properly enrolled in the TANF program.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of HHS' compliance with specified requirements.

Effect - Lack of supporting documentation for program services and noncompliance with program requirements could result in disallowances of costs and participants could be receiving benefits that they are not entitled to receive under the program.

Cause - Policies and procedures were not appropriately adhered to in the aforementioned instances to ensure that supporting documentation was maintained to evidence that proper eligibility determination had been conducted.

Recommendation - We recommend that HHS improve internal control procedures to ensure that documentation is maintained to support eligibility decisions and that files are properly secured. Personnel receiving the applications and supervisors reviewing the eligibility determination should ensure that application forms are completely filled out and correct information is maintained in the file.

Montgomery County, Maryland
Schedule of Findings and Questioned Costs

Views of Responsible Officials and Planned Corrective Actions - We agree with this finding and recommendation but want to offer up additional explanation. There has been a 72% increase in caseload and workload at a time of staffing shortfalls. We have almost a thousand cases of TANF in the County and the finding referenced two records. These conditions increased our risk around effective records management. However, we do want to reassure our stakeholders in oversight roles that the County has a structured process for determining eligibility. The Cognizant system, CARES, included narration on the subject applicants that could only come from case files including applications and serves as a back-up for the hard copy file. However, the information requested appeared to have been misfiled and could not be presented during the time of the audit.

In order to mitigate the risk, a new policy will be implemented that will require a complete case record (including original application) as part of Supervisory or peer pre-reviews (PIRAMID) as well as an end-of-day check by managers to ensure proper filing. We are expanding the number of personnel dedicated to case record management and filing, and implementing soon an electronic case management system with scanning capabilities, with a projected implementation schedule for May 2013.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Finding 2012-14: Eligibility

Information on Federal Program(s) - Social Services Block Grant
CFDA Number: 93.667
Grant Award Number: Maryland House Bill 669
Grant Award Period: July 1, 2011 to June 30, 2012

Criteria or Specific Requirement - OMB Circular A-133 Subpart C Section .300 (b) states, "The auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Condition - The County's Department of Health and Human Services (HHS) is responsible for determining eligibility of participants in the Social Services Block Grant (SSBG) program. We noted the following during our review of 60 participants which had been selected for testing:

- 1 participant did not have documentation that a notice was given to provide status of the case.
- 1 participant, who was not considered a vulnerable adult, was incorrectly re-assessed.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of HHS' compliance with specified requirements.

Effect - Lack of supporting documentation for program services and noncompliance with program requirements could result in disallowances of costs and participants could be receiving benefits that they are not entitled to receive under the program.

Cause - Policies and procedures were not appropriately adhered to in the aforementioned instances to ensure that supporting documentation was maintained to evidence that proper eligibility determination had been conducted.

Recommendation - We recommend that HHS improve internal control procedures to ensure that documentation is maintained to support eligibility decisions and that files are properly secured. Personnel receiving the applications and supervisors reviewing the eligibility determination should ensure that application forms are completely filled out and correct information is maintained in the file. Further, HHS should strengthen its assessment controls and procedures to minimize instances of ineligible applicants being re-assessed under the program.

Views of Responsible Officials and Planned Corrective Actions - We agree with this finding and recommendation but ask that it be viewed in the context of the whole program. Aging and Disability Administration was found to have a 3% error rate for the APS and SSTA programs. These programs in FY12 had a collective caseload volume of 2,193 cases. Given these numbers, the findings are relative small in magnitude though we concur that these vulnerabilities must be addressed. The program is reviewing case record documentation practices to address identified accountability issues to prevent such occurrences in the future.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

The service area has instituted enhanced supervisory oversight of case management record reviews to ensure compliance will be implemented. New case records will be reviewed every 30 days by the managers to ensure that all documentation in the case file is complete. For on-going cases, the manager will review the case files every six months for case record requirements. This process was implemented February 5, 2013.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Finding 2012-15: Subrecipient Monitoring

Information on Federal Program(s) - ARRA - Energy Efficiency and Conservation Block Grant Program
CFDA Number: 81.128
Grant Award Number: DE/EE0000743/002
Grant Award Period: November 9, 2009 to November 8, 2012

Criteria or Specific Requirement - The OMB Circular A-133 Compliance Supplement indicates that a grantee must have policies and procedures in place to (1) monitor the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved; (2) ensure required audits are performed and require the subrecipient to take prompt corrective action on any audit findings; and (3) evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Compliance with these requirements is required to be documented and files are required to be retained in accordance with OMB Circular A-102.

Condition - 1 of 3 subrecipients selected for testing did not report funding received from the County's Energy Efficiency and Conservation Block Grant Program in its separate OMB Circular A-133 audit report dated September 28, 2012. There was no evidence that the County obtained any corrective action plan from the subrecipient and followed-up on this deficiency in a timely manner. The County informed the subrecipient about the deficiency and requested a corrective action plan subsequently.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of the County's compliance with specified requirements.

Effect - Failure to properly monitor subrecipients could lead to subrecipients inappropriately using federal funds and incorrect reporting.

Cause - It appears that the County did not have a consistent method in place to monitor its subrecipients.

Recommendation - We recommend the County enforce its existing policies and procedures. Such procedures should ensure that a copy of the subrecipient's audit reports are obtained in a timely manner and any corrective action plans for findings noted are implemented in a timely manner. In addition, we also recommend maintaining a database of all subrecipients to whom the provisions of OMB Circular A-133 requirements apply, those who are required to provide an audit, the date of the receipt of the audit report, a listing of the findings, and a status on the corrective action on all audit findings.

Montgomery County, Maryland
Schedule of Findings and Questioned Costs

Views of Responsible Officials and Planned Corrective Actions - We agree with this finding and recommendation. Because of the delay in closing the prior fiscal year, the established schedule of procedures was not completed timely. This year, following the established procedures, correspondence will be sent to subrecipients in July informing them of the amount of funds passed through during the fiscal year, the relevant CFDA number, grant identifier, the federal granting agency issuing the funds originally, and the granting agency from which the County received the funding. In the same correspondence, a copy of their single audit report will be requested as soon as it becomes available. Starting the last week of September, we will follow up to obtain copies of subrecipients' single audit reports, will review them for findings, and request corrective actions if necessary.

Montgomery County, Maryland
Summary Schedule of Prior Audit Findings and
Management's Corrective Action Plan

Individuals Responsible for Corrective Action Plan

Karen Hawkins
Chief Operating Officer
240-777-8828

Lenny Moore
Controller
240-777-8802

Mauricio Delgado
Finance, Grant Manager
240-777-8804

2011-11: Reporting

Information on Federal Program(s) - Social Services Block Grant
CFDA Number: 93.667

Prior Year Finding - During the audit, a program expense was paid and invoiced in fiscal year 2010, but was recorded as fiscal year 2011 program costs.

Current Year Status - This finding has been corrected in the current year.



Prepared by the:
Department of Finance
Division of the Controller
101 Monroe Street
Rockville, Maryland 20850
240-777-8860



Independent Accountant's Report

The Honorable County Council
of Montgomery County, Maryland
Rockville, Maryland

We have performed the procedures enumerated below, which were agreed to by management of Montgomery County, Maryland (the County) for the year ended June 30, 2012, solely to assist the County in evaluating management's assertion, contained in the Chief Financial Officer's letter (the Letter), including attachments, dated December 31, 2012, Annual Certification of Financial Assurance Mechanisms for Local Government Owners and Operators of Municipal Solid Waste Landfill Facilities, which addresses the County's compliance with the Federal Register (40 CFR Part 258, Subpart G) Criteria For Municipal Solid Waste Landfills - Financial Assurance Criteria (Financial Assurance Criteria). The County's management is responsible for compliance with the Financial Assurance Criteria. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

- A. Obtain the Letter from the Director of Finance that demonstrates financial assurance for closure and post-closure care costs as specified in 40 CFR §258, Subpart G, Financial Assurance Criteria: As applicable, compare the data and statements contained in the Letter with the audited financial statements of Montgomery County, Maryland, as of and for the year ended June 30, 2012.

1. We found no exceptions as a result of our procedures.

The County owns land within the County located at Dickerson, Maryland (Site II) and has obtained a permit to construct a landfill at this site. However, the County does not intend to use Site II as long as its out-of-County transport and disposal contract remains in place. Accordingly, no closure and post-closure costs for this facility are accrued for at June 30, 2012.

- B. Determine that compliance with 40 CFR §258, Subpart G, Financial Assurance Criteria is met by completing the following:

1. Verify that the County assures closure, post-closure, and corrective action costs are within 43% of the local government's total annual revenue.

We found no exceptions as a result of our procedures.



2. Inquire with the Risk Management Division of the Department of Finance as to whether the County assumes other environmental obligations, including those associated with Underground Injection Control (UIC) facilities under 40 CFR 144.62, Petroleum Underground storage tank facilities under 40 CFR Part 280, Polychlorinated Biphenyls (PCB) storage facilities under 40 CFR Part 761, and Hazardous Waste Treatment storage and disposal facilities under 40 CFR Parts 264 and 265. If yes, verify the total assumed does not exceed 43% of the County's total annual revenue.

We noted, based on our inquiry, the County has a contingent liability with respect to the Gude Landfill. A contingent liability currently exists because the Gude Landfill has been identified as a site which will require pollution remediation or additional post-closure costs due to ground water and surface water contamination. The County is still investigating the extent to which this site needs remediation; therefore, no reasonable estimable obligation can be reported as of June 30, 2012.

Based on the inquiry above, the total reported obligations do not exceed 43% of the County's total annual revenue.

3. If costs in B1 or B2 above exceed the 43% limits, verify that there is an alternate financial assurance instrument.

Not applicable.

4. If there are outstanding, rated, general obligation bonds that are not secured by insurance, a letter of credit or other collateral or guarantee, verify from the State Report that the current bond rating is as follows:

- a. Moody's - AAA, Aaa, A, or Baa; or
- b. Standard & Poor's - AAA, AA, A, or BBB.

We found no exceptions as a result of our procedures.

5. If the bond rating requirements in B4 have not been met, recalculate the following ratios:
 - a. A ratio of cash plus marketable securities to total expenditures greater than or equal to 0.05;
 - b. A ratio of annual debt service to total expenditures less than or equal to 0.20.

This calculation is not required as the County has met the bond rating requirements in B4 above.

6. Verify that the County prepares its financial statements in accordance with generally accepted accounting principles (GAAP), and they are audited by an independent certified public accountant.

We found no exceptions as a result of our procedures.

7. Verify the County is not currently in default on any of its outstanding general obligation bonds.

We found no exceptions as a result of our procedures.



8. Verify that the County has not operated at a deficit equal to 5% or more of its total annual revenue in each of the past two fiscal years.

We found no exceptions as a result of our procedures for the year ended June 30, 2012. We also reviewed the predecessor auditor's June 30, 2011 agreed-upon procedures report which showed no such exceptions for the year then ended.

9. Verify that an adverse opinion, disclaimer of opinion, or other qualified opinion was not issued from the independent certified public accountant auditing the Comprehensive Annual Financial Report.

We found no exceptions as a result of our procedures.

10. Ensure that the following were disclosed in the audited financial statements:

- a. Nature and source of closure and post-closure care requirements;
- b. The reported liability at the balance sheet date;
- c. The estimated total closure and post-closure care cost remaining to be recognized; and
- d. Total Oaks Landfill cumulative capacity used at the date of closure.

We found no exceptions as a result of our procedures.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the County's compliance with the Financial Assurance Criteria. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of the County and the County Council of Montgomery County, Maryland, and is not intended to be and should not be used by anyone other than these specified parties.

BDO USA, LLP

December 31, 2012

Montgomery County, Maryland

Agreed-Upon Procedures Federal Transit Administration's National Transit Database June 30, 2012

The report accompanying these financial statements was issued by
BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of
BDO International Limited, a UK company limited by guarantee.



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Bethesda, MD 20814

Independent Accountant's Report

The Honorable County Council
of Montgomery County, Maryland
Rockville, Maryland

We have performed the procedures enumerated below, which were agreed to by management of **Montgomery County, Maryland** (the County) as presented in the Federal Transit Administration's (FTA) *National Transit Database 2012 Reporting Manual*, solely to assist the users in evaluating management's assertion about the County's compliance with the *Uniform System of Accounts and Records and Reporting System Final Rule*, as specified in 49 CFR Part 630, *Federal Register*, December 6, 2007, for the year ended June 30, 2012. The County's management is responsible for compliance with the *Uniform System of Accounts and Records and Reporting System Final Rule*, as specified in 49 CFR Part 630, *Federal Register*, December 6, 2007. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

- a) Obtain and read a copy of written procedures related to the system for reporting and maintaining data in accordance with the National Transit Database (NTD) requirements and definitions set forth in 49 CFR Part 630, *Federal Register*, and December 6, 2007, and as presented in the *2012 Reporting Manual*. If procedures are not written, discuss the procedures with the personnel assigned responsibility of supervising the NTD data preparation and maintenance.

We obtained and read a copy of procedures related to the system for reporting and maintaining data in accordance with the NTD requirements and definitions set forth in 49 CFR Part 630, *Federal Register*, and December 6, 2007, and as presented in the *2012 Reporting Manual*.

- b) Discuss the procedures (written or informal) with the personnel assigned responsibility of supervising the preparation and maintenance of NTD data to determine:
 - The extent to which the transit agency followed the procedures on a continuous basis, and
 - Whether they believe such procedures result in accumulation and reporting of data consistent with the NTD definitions and requirements set forth in 49 CFR Part 630, *Federal Register*, and December 6, 2007, and as presented in the *2012 Reporting Manual*.

We discussed the procedures, set forth in step (a) above, with the personnel assigned responsibility for supervising the preparation and maintenance of the NTD data, and were informed that the County follows the procedures on a continuous basis and that they believe such procedures result in accumulation and reporting of data consistent with the NTD definitions and requirements set forth in 49 CFR Part 630, *Federal Register*, and December 6, 2007, and as presented in the *2012 Reporting Manual*.

We found no exceptions as a result of our procedures.

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- c) Inquire of same personnel concerning the retention policy that is followed by the transit agency with respect to source documents supporting the NTD data, Total Modal Operating Expenses data (F-30, line 15, column e), Actual Vehicle Revenue Mile and Passenger Miles Traveled (S-10, lines 12 and 20, column d).

We inquired of the personnel assigned responsibility for supervising the preparation and maintenance of the NTD data concerning the retention policy that is followed by the County with respect to source documents supporting the NTD data, Total Modal Operating Expenses data (F-30, line 15, column e), Actual Vehicle Revenue Mile and Passenger Miles Traveled (S-10, lines 12 and 20, column d). The County follows a retention policy of at least three years for the noted documentation.

We found no exceptions as a result of our procedures.

- d) Based on a description of the transit agency's procedures obtained in items (a) and (b) above, identify all the source documents which are to be retained by the transit agency for a minimum of three years. For each type of source document, select three months out of the year and determine whether the document exists for each of these periods.

We identified source documents, for the following modes, which the FTA requires the County to retain for a minimum of three years:

- Motor Bus - Directly Operated (MB/DO)
- Demand Response - Purchased Transportation (DR/PT)
- Demand Response Taxi - Purchased Transportation (DT/PT)

We reviewed source documents for the months of September 2011, December 2011, and February 2012, and determined the documents exist for each of those periods.

We found no exceptions as a result of our procedures.

- e) Discuss the system of internal controls with the person responsible for supervising and maintaining the NTD data. Inquire whether individuals, independent of the individuals preparing source documents and posting data summaries, review the source documents and data summaries for completeness, accuracy, and reasonableness and how often such reviews are performed.

We discussed the system of internal controls with the person responsible for supervising and maintaining the NTD data. We inquired whether individuals, independent of those preparing the source documents and posting data summaries, reviewed the source documents and data summaries for completeness, accuracy, and reasonableness. Additionally, we inquired about the frequency of such reviews. We noted that an individual independent of preparing the source documents and posting the data summaries was responsible for reviewing the source documents and data summaries for completeness, accuracy, and reasonableness at year-end, prior to the report's submission.

We found no exceptions as a result of our procedures.

- f) Select a random sample of the source documents and determine whether supervisors' signatures are present as required by the system of internal controls. If supervisors' signatures are not required, inquire how the supervisors' reviews are documented.



We randomly selected samples of the source documents for each mode for the months of September 2011, December 2011, and February 2012. We noted that there was no formal documentation of a review on each of the month's source documents. However, per discussion with management, financial reviews as well as service information are reviewed monthly and considered in management decisions. In addition, we obtained a copy of the transmittal form that is attached to the final NTD report prior to its submission, which contains the name of the originator of the report, and is manually signed by the reviewer. We verbally confirmed with management that the Chief of Management Services and the Chief, Division of Transit Services reviews the NTD report, which is then officially submitted by the Chief, Division of Transit Services.

We found no exceptions as a result of our procedures.

- g) Obtain the worksheets utilized by the transit agency to prepare the final data that are transcribed onto the Federal Funding Allocation Statistics form (FFA-10). Compare the periodic data included on the worksheets to the periodic summaries prepared by the transit agency. Test the arithmetical accuracy of the summarizations.

We obtained the worksheet utilized by the County to prepare the final data reported in the Federal Funding Allocation Statistics Form (FFA-10) and tested the arithmetical accuracy of the summarizations. We compared the data included on the worksheets to the summarization and noted variances below:

- Total modal operating expenses (F-30, line 15, column e) for MB/DO was incorrectly reported at \$99,736,246 instead of \$99,736,739;
- Days operated (S-10, line 21, column d) for DT/PT was incorrectly reported at 365 instead of 366.

The County subsequently corrected the above noted exceptions in the final version of forms submitted to NTD.

- h) Discuss the transit agency's procedure for accumulating and recording passenger miles traveled (PMT) data in accordance with NTD requirements with transit agency staff. Inquire whether the procedure used is (1) a 100% count of actual PMT or (2) an estimate of PMT based on statistical sampling meeting FTA's 95% confidence and $\pm 10\%$ precision requirements. If the transit agency conducts a statistical sample for estimating PMT inquire whether the sampling procedure is (1) one of the two procedures suggested by FTA and described in FTA Circulars 2710.1A or 2710.2A; or (2) an alternative sampling procedure if the transit agency uses an alternative sampling procedure, inquire whether the procedure has been approved by FTA or whether a qualified statistician has determined that the procedure meets FTA's statistical requirements. Note as a negative finding in the report, use of an alternative sampling procedure that has not been approved in writing by a qualified statistician.

We discussed the County's procedure for accumulating and recording passenger travel mile data in accordance with the NTD requirements with the County's staff. We were informed that passenger travel mile data accumulation is completed utilizing an estimate based on statistical sampling. We were informed that the County uses an alternative sampling method which is approved by a qualified statistician in writing, and meets FTA's statistical requirements.

We found no exceptions as a result of our procedures.



- i) Discuss with transit agency staff the transit agency's eligibility to conduct statistical sampling for PMT data every third year. Determine whether the transit agency meets one of the three criteria that allow transit agencies to conduct statistical samples for accumulating PMT data every third year rather than annually. Specifically:
- According to the 2000 Census, the public transit agency serves an UZA of less than 500,000 populations.
 - The public transit agency directly operates fewer than 100 revenue vehicles in all modes in annual maximum revenue service (VOMS) (in any size urbanized area).
 - The service is purchased from a seller operating fewer than 100 revenue vehicles in VOMS, and is included in the transit agency's NTD report.

For transit agencies that meet one of the above criteria, review the NTD documentation for the most recent mandatory sampling year (2012) and determine that statistical sampling was conducted and meets the 95% confidence and $\pm 10\%$ precision requirements.

We discussed the County's eligibility to conduct statistical sampling for PMT data every third year with the County's staff. We determined that the County does not meet any of the three criteria enumerated above that would allow it to conduct statistical sampling for accumulating passenger miles traveled data every third year. Therefore, the County conducts statistical sampling annually.

We found no exceptions as a result of our procedures.

- j) Obtain a description of the sampling procedure for estimation of PMT data used by the transit agency. Obtain a copy of the transit agency's working papers or methodology used to select the actual sample of runs for recording PMT data. If the average trip length was used, determine that the universe of runs was used as the sampling frame. Determine that the methodology to select specific runs from the universe resulted in a random selection of runs. If a selected sample run was missed, determine that a replacement sample run was randomly selected. Determine that the transit agency followed the stated sampling procedure.

We obtained a description of the sampling procedures for estimation of PMT data used by the County and a copy of the County's working papers and methodology used to select the actual sample of runs for recording PMT data.

We noted that the County uses alternative sampling procedures for estimating passenger miles traveled. The procedures have been approved in writing by a qualified statistician who determined that the County's procedures meet the FTA's statistical requirements.

We found no exceptions as a result of our procedures.

- k) Select a random sample of the source documents for accumulating PMT data and determine that they are complete (all required data are recorded) and that the computations are accurate. Select a random sample of the accumulation periods and re-compute the accumulations for each of the selected periods. List the accumulation periods that were tested. Test the arithmetical accuracy of the summarization.

We selected a sample of source documents for accumulating PMT data for each of the modes, ensured the sample items were properly documented, and tested the accuracy of the computations. Data was selected for the following:



- MB/DO: September 2011, December 2011, February 2012, and annual documentation.
- DR/PT: September 2011, December 2011, February 2012, and annual documentation.
- DT/PT: September 2011, December 2011, February 2012, and annual documentation.

We found no exceptions as a result of our procedures.

- l) Discuss the procedures for systematic exclusion of charter, school bus, and other ineligible vehicle miles from the calculation of actual vehicle revenue miles with transit agency staff and determine that stated procedures are followed. Select a random sample of the source documents used to record charter and school bus mileage and test the arithmetical accuracy of the computations.

We discussed the procedures for the systematic exclusion of charter services and school services from the calculation of vehicle revenue miles with the County's staff. We noted that the County does not provide school or charter services. We reviewed summary schedules of vehicle revenue miles and noted that these services are excluded from the calculation.

We found no exceptions as a result of our procedures.

- m) For actual vehicle revenue mile (VRM) data, document the collection and recording methodology and determine that deadhead miles are systematically excluded from the computation.

For VRM data, we reviewed the collection and recording methodology. We inspected the summaries of completed trips, noting that deadhead miles are systematically excluded from the computation.

We found no exceptions as a result of our procedures.

- n) If actual VRMs are calculated from schedules, document the procedures used to subtract missed trips. Select a random sample of the days that service is operated and re-compute the daily total of missed trips and missed VRMs. Test the arithmetical accuracy of the summarization.

- If actual VRMs are calculated from hub odometers, document the procedures used to calculate and subtract deadhead mileage. Select a random sample of the hub odometer readings and determine that the stated procedures for hub odometer deadhead mileage adjustments are applied as prescribed. Test the arithmetical accuracy of the summarization of intermediate accumulations.
- If actual VRMs are calculated from vehicle logs, select random samples of the vehicle logs and determine that the deadhead mileage has been correctly computed in accordance with FTA's definitions.

Actual VRMs for the County are calculated from vehicle logs. We selected a random sample of vehicle logs and determined that the deadhead mileage has been correctly computed. We inspected the summaries of completed trips, noting that deadhead miles are systematically excluded from the computation.

We found no exceptions as a result of our procedures.

- o) For rail modes, review the recording and accumulation sheets for actual VRMs and determine that locomotive miles are not included in the computation.

We noted the County does not have a rail operation.



- p) If fixed guideway directional route miles (FG DRM) are reported, interview the person responsible for maintaining and reporting the NTD data whether the operations meet FTA's definition of fixed guideway (FG) in that the service is:

- Rail, trolleybus (TB), ferryboat (FB), or aerial tramway (TR) or
- Bus (MB) service operating over exclusive or controlled access rights-of-way (ROW), and
 - Access is restricted
 - Legitimate need for restricted access is demonstrated by peak period level of service D or worse on parallel adjacent highway
 - Restricted access is enforced for freeways; priority lanes used by other high occupancy vehicles (HOV) (i.e., vanpools (VP), carpools) must demonstrate safe operation (see Fixed Guideway Segments form (S-20))
 - High Occupancy / Toll (HO/T) lanes meet FHWA requirements for traffic flow and use of toll revenues, and that the transit agency has provided to NTD a copy of the State's certification to the US Secretary of Transportation that it has established a program for monitoring, assessing and reporting on the operation of the HOV facility with HO/T lanes.

We noted the County does not have a rail operation.

- q) Discuss the measurement of fixed guideway FG DRM with the person reporting the NTD data and determine that the mileage is computed in accordance with FTA's definitions of FG and DRM. Inquire whether there were service changes during the year that resulted in an increase or decrease in DRMs. If a service change resulted in a change in overall DRMs, re-compute the average monthly DRMs, and reconcile the total to the FG DRM reported on the FFA-10 form.

We noted the County does not have a rail operation.

- r) DRMs for the segment(s) should be reported for the entire report year if the interruption is less than 12 months in duration. The months of operation on the S-20 form should be reported as 12. The transit agency should have completed a Form Note describing the interruption.
- If the improvements cause a service interruption on the FG-DRMs lasting more than 12 months, the transit agency should contact their validation analyst to discuss. FTA will make a determination on how the DRMs should be reported.

We noted the County does not have a rail operation.

- s) Measure FG-DRM from maps or by retracing routes.

We noted the County does not have a rail operation.

- t) Discuss with the person reporting the NTD data whether other public transit agencies operate service over the same FG as the transit agency. If yes, determine that the transit agency coordinated with the other transit agency (ies) such that the DRMs for the segment of FG are reported only once to the NTD on the FFA-10 form. Each transit agency should report the actual VRM, PMT, and OE for the service operated over the same FG.

We noted the County does not have a rail operation.



- u) Review the S-20 form. Discuss with the persons reporting NTD data the Agency Revenue Service Start Date for any segments added in the 2012 report year. This is the commencement date of revenue service for each FG segment. Determine that the date is reported as when the agency began revenue service. This may be later than the Original Date of Revenue Service if the transit agency is not the original operator. If a segment was added for the 2012 report year, the Agency Revenue Service Date must occur within the transit agency's 2012 fiscal year. Segments are summarized by like characteristics. Note that for apportionment purposes under the Capital Program for Fixed Guideway Modernization, the 7-year age requirement for fixed guideway segments is based on the report year when the segment is first reported by any NTD transit agency. This pertains to segments reported for the first time in the current report year. Even if a transit agency can document an Agency Revenue Service Start Date prior to the current NTD report year, FTA will only consider segments continuously reported to NTD.

We noted the County does not have a rail operation.

- v) Compare operating expenses with audited financial data, after reconciling items are removed.

We compared and reconciled the operating expenses on the Operating Expenses Summary (F-40) with the audited financial statements, noting an immaterial variance of \$1,158. Further, depreciation expense (F-40, line 21, column c) was incorrectly reported at \$9,321,268 instead of \$9,341,782.

The County subsequently corrected the above noted exceptions in the final version of forms submitted to NTD.

- w) If the transit agency purchases transportation (PT) services, interview the personnel reporting the NTD data regarding the amount of PT generated fare revenues. The PT fare revenues should equal the amount reported on the Contractual Relationship Form (B-30).

We inquired of the personnel reporting the NTD data regarding the amount of PT generated fare revenues. For the County's purchase of transportation services from private providers in the Demand Response - Purchase Transportation and Taxi - Demand Response - Purchase Transportation modes, we obtained supporting documentation, which included contracts with taxi-cab companies and trial balance reports, for the amount of purchased transportation-generated fare revenues, and agreed that amount to the amount reported on the Contractual Relationship Form (B-30), noting agreement of the totals. We noted that the County did not operate a Bus Service Motorbus Purchase Transportation mode in the current year.

We found no exceptions as a result of our procedures.

- x) If the transit agency's report contains data for PT services and assurances of the data for those services is not included, obtain a copy of the IAS-FFA data of the PT service.

The County's report contains data for PT services and assurances of the data for those services.

- y) If the transit agency purchases transportation services, obtain a copy of the PT contract and determine that the contract (1) specifies the specific public transportation services to be provided; (2) specifies the monetary consideration obligated by the transit agency or governmental unit contracting for the service; (3) specifies the period covered by the contract and that this period overlaps the entire or a portion of, period covered by the transit agency's NTD report; and (4) is signed by representatives of both parties to the contract. Interview the person responsible for maintaining the NTD data regarding the retention of the executed contract, and determine that copies of the contracts are retained for three years.



For the County's purchase of transportation services in the Demand Response - Purchase Transportation, Taxi - Demand Response - Purchase Transportation and Motorbus Directly Operated modes, we obtained a copy of the purchase transportation contract and noted that the contract (1) specifies the specific mass transportation services to be provided; (2) specifies the monetary consideration obligated by the County contracting for the service; (3) specifies the period covered by the contract and that this period is the same as, or a portion of the period covered by the County's NTD report; and (4) is signed by representatives of both parties to the contract. We inquired of the person responsible for maintaining the NTD data regarding the retention of the executed contract, and were informed that copies of the contracts are retained for three years.

We found no exceptions as a result of our procedures.

- z) If the transit agency provides service in more than one UZA, or between a UZA and a non-UZA, inquire of the person responsible for maintaining the NTD data regarding the procedures for allocation of statistics between UZAs and non-UZAs. Agencies that operate service in both within a UZA and outside of a UZA (non-UZA) will report to the 2012 Annual NTD database. Agencies who operate service only in a non-UZA should report the 2012 NTD Rural Report. Obtain and review the FG segment worksheets, route maps, and urbanized area boundaries used for allocating the statistics, and determine that the stated procedure is followed and that the computations are correct.

We inquired of the County's staff responsible for maintaining the NTD data regarding the procedures for allocating statistics between urbanized areas and non-urbanized areas. We obtained worksheets, route maps, and urbanized area boundaries used for allocating the statistics and noted that 100% of the County's operations fall within an urbanized area.

We found no exceptions as a result of our procedures.

- aa) Compare the data reported on Total Modal Operating Expenses data (F-30, line 15, column e), Actual Vehicle Revenue Mile and Passenger Miles Traveled (S-10, lines 12 and 20, column d) to comparable data for the prior report year and calculate the percentage change from the prior year to the current year. For actual VRM, PMT, or OE data that have increased or decreased by more than 10%, or FG DRM data that have increased or decreased, interview transit agency management regarding the specifics of operations that led to the increases or decreases in the data relative to the prior reporting period.

We compared the F-30 and S-10 reports, which are historically used by the County to prepare the Federal Funding Allocation Statistics Form (FFA-10) to comparable data from the prior report year and calculated the percentage change from the prior year to the current year. The Passenger Miles Traveled (S-10, line 20, column d) for MB/DO's PMT increased by 12%. We interviewed the County regarding the specifics of operations that led to the variances in the data. The County provided explanations for the variances noted. The County does not have a rail operation.

We found no exceptions as a result of our procedures.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the County's compliance with the *Uniform System of Accounts and Records and Reporting System Final Rule*, as specified in 49 CFR Part 630, *Federal Register*, December 6, 2007. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.



This report is intended solely for the information and use of the management of the County, the County Council, and the FTA, and is not intended to and should not be used by anyone other than these specified parties.

BDO USA, LLP

March 26, 2013

**Maryland 911 Emergency Number
Systems Program**

Montgomery County, Maryland

Schedule of Maintenance and Operating
Revenues and Expenditures
Year Ended June 30, 2012

Maryland 911 Emergency Number Systems Program
Montgomery County, Maryland

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Independent Auditor's Report

The Honorable County Council
of Montgomery County, Maryland
Rockville, Maryland

We have audited the accompanying Schedule of Maintenance and Operating Revenues and Expenditures (the Schedule) of the Maryland 911 Emergency Number Systems Program (the Program) of Montgomery County, Maryland (the County) for the year ended June 30, 2012. This Schedule is the responsibility of the County's management. Our responsibility is to express an opinion on the Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Schedule was prepared to comply with the laws and regulations governed by the Emergency Number Systems Board of the Maryland Department of Public Safety and Correctional Services as set forth in Public Safety Article Section 1-312 and does not purport to, and does not, present fairly the financial position of Montgomery County, Maryland, as of June 30, 2012, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Schedule of Maintenance and Operating Revenues and Expenditures referred to previously presents fairly, in all material respects, the maintenance and operating revenues and expenditures of the Maryland 911 Emergency Number Systems Program of Montgomery County, Maryland for the year ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use of management of Montgomery County, Maryland and the Emergency Number Systems Board of the Maryland Department of Public Safety and Correctional Services and is not intended to be and should not be used by anyone other than these specified parties.

BDO USA, LLP

December 28, 2012

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**Maryland 911 Emergency Number Systems Program
Montgomery County, Maryland**

**Schedule of Maintenance and Operating
Revenues and Expenditures**

	Local Fee	County Funding	Total
Revenues			
County fee	\$ 6,813,260	\$ -	\$ 6,813,260
State of Maryland allocations	424,885	-	424,885
Total revenues	7,238,145	-	7,238,145
Expenditures			
Personnel costs	4,769,282	4,288,950	9,058,232
Non-personnel costs:			
Telephone	1,235,705	541,874	1,777,579
Rent	691,749	296,464	988,213
Repairs	31,011	116,625	147,636
Utilities	370,289	262,029	632,318
Miscellaneous	140,109	72,334	212,443
Total expenditures	7,238,145	5,578,276	12,816,421
Operating expenditures in excess of revenues	\$ -	\$ (5,578,276)	\$ (5,578,276)

See accompanying notes to this Schedule.

Maryland 911 Emergency Number Systems Program Montgomery County, Maryland

Notes to the Schedule of Maintenance and Operating Revenues and Expenditures

1. Summary of Significant Accounting Policies

Reporting Entity

911 is the three-digit telephone number that has been designated for public use throughout the United States in requesting emergency assistance. The Maryland 911 Emergency Number Systems Program (the Program) of Montgomery County, Maryland (the County) allows an individual to reach a centralized dispatch center for all emergency services, eliminating the need to recall the separate 10-digit numbers for each emergency service provided in a political jurisdiction. Generally, each political jurisdiction maintains a centralized dispatch center.

Basis of Accounting

The Schedule of Maintenance and Operating Revenues and Expenditures (the Schedule) is prepared on the modified accrual basis of accounting whereby revenues are recorded when susceptible to accrual, which is defined as when the revenues are both measurable and available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon thereafter to pay liabilities of the current period (i.e., within 30 days after year-end). Expenditures are recorded when the liability is incurred.

Financial Statement Presentation

The accompanying Schedule was prepared to present the maintenance and operating revenues and expenditures of the County's 911 System centralized dispatch center pursuant to Public Safety Article Section 1-312, which prescribes accounting procedures for 911 maintenance and operating revenues and expenditures, and establishes limits on the types and amounts of revenues that can be used for personnel and other maintenance and operating expenditures.

The Schedule reflects the designated revenue from the Emergency Number Systems Board of the Maryland Department of Public Safety and Correctional Services (the Board) and the expenditures incurred to run the Program. The County funds the difference between Board revenue and total expenditures.

The accompanying Schedule does not purport to, and does not, present fairly the financial position of Montgomery County, Maryland, as of June 30, 2012, and changes in its financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Statutory Reporting

The reported revenues and expenditures of the Program are included in the County's General Fund and include the following:

Revenues:

A County fee (additional charge) of \$.75 per month per subscriber to the 911-accessible service is deposited into the Maryland State 911 Trust Fund and distributed (on a quarterly basis) to the County by the Maryland Department of Public Safety and Correctional Services for eligible operation and maintenance costs.

Maryland 911 Emergency Number Systems Program Montgomery County, Maryland

Notes to the Schedule of Maintenance and Operating Revenues and Expenditures

The County fee is pursuant to Title 1, Subtitle 3, Section 1-311 of the Annotated Code of Maryland. Interest is earned on the funds held in the 911 Trust Fund prior to distribution to the County. However, as a result of an Act passed by the State of Maryland, interest was retained by the State of Maryland for the year ended June 30, 2012.

Expenditures:

Reported expenditures for eligible operation and maintenance costs include telephone charges, equipment costs and equipment lease charges, system enhancement costs, repairs, utilities, personnel costs; and other appropriate carryover costs from previous years (pursuant to the Annotated Code of Maryland, Public Safety Article Section 1-312(b)).

2. Subsequent Events

Management has evaluated any events or transactions occurring after June 30, 2012, through December 28, 2012, the date the Schedule was available to be issued, and noted that there have been no such events or transactions which would require adjustment to or disclosure in the Schedule for the year ended June 30, 2012.